STATE OF SOUTH CAROLINA

Comprehensive Annual Financial Report

June 30, 1986

Earle E. Morris, Jr. — Comptroller General

EARLE E. MORRIS, JR.

Comptroller General

STATE OF SOUTH CAROLINA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDING JUNE 30,

1986

"Old Stone Church — Pendleton, South Carolina" — Old Stone Church or the stone meeting house, is the burial place of General Andrew Pickens and other heroes of the American Revolution.

THE THREE R'S OF TRIPLE A

A state's credit ratings are based, in part, on three factors: REPUTATION, REPORTING, RELIABILITY.

South Carolina has established a reputation in the financial markets for balanced budgets, mandated reserve funds and for always "paying our bills".

The General Assembly of the state has endorsed my initiatives for fiscal reform in implementing in 1982 a much needed statewide accounting and reporting system (STARS). We are now in the third year of conversion from a cash-basis accounting system to Generally Accepted Accounting Principles (GAAP). This is now demanded by the bond rating firms and, fortunately, we will be ahead of most states in effecting this change.

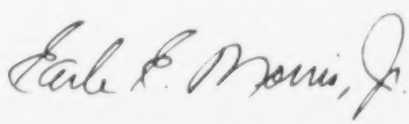
The reliability of a financial report is an essential factor in maintaining our credit posture and this 1986 Comprehensive Annual Financial Report discloses more information than any previous one in our history.

Hopefully, a GAAP system will not only strengthen our present fiscal posture but it may also enable us to market our obligations at a lower interest rate.

We are "making the best better".

Even though these accounting and financial reporting changes are necessary for today's credit rating requirements, we will still do what South Carolina has achieved through the old fashioned way in having a TRIPLE A reputation:

WE WILL EARN IT!



EARLE E. MORRIS, JR.
Comptroller General of South Carolina

STATE OF SOUTH CAROLINA

Comprehensive Annual Financial Report

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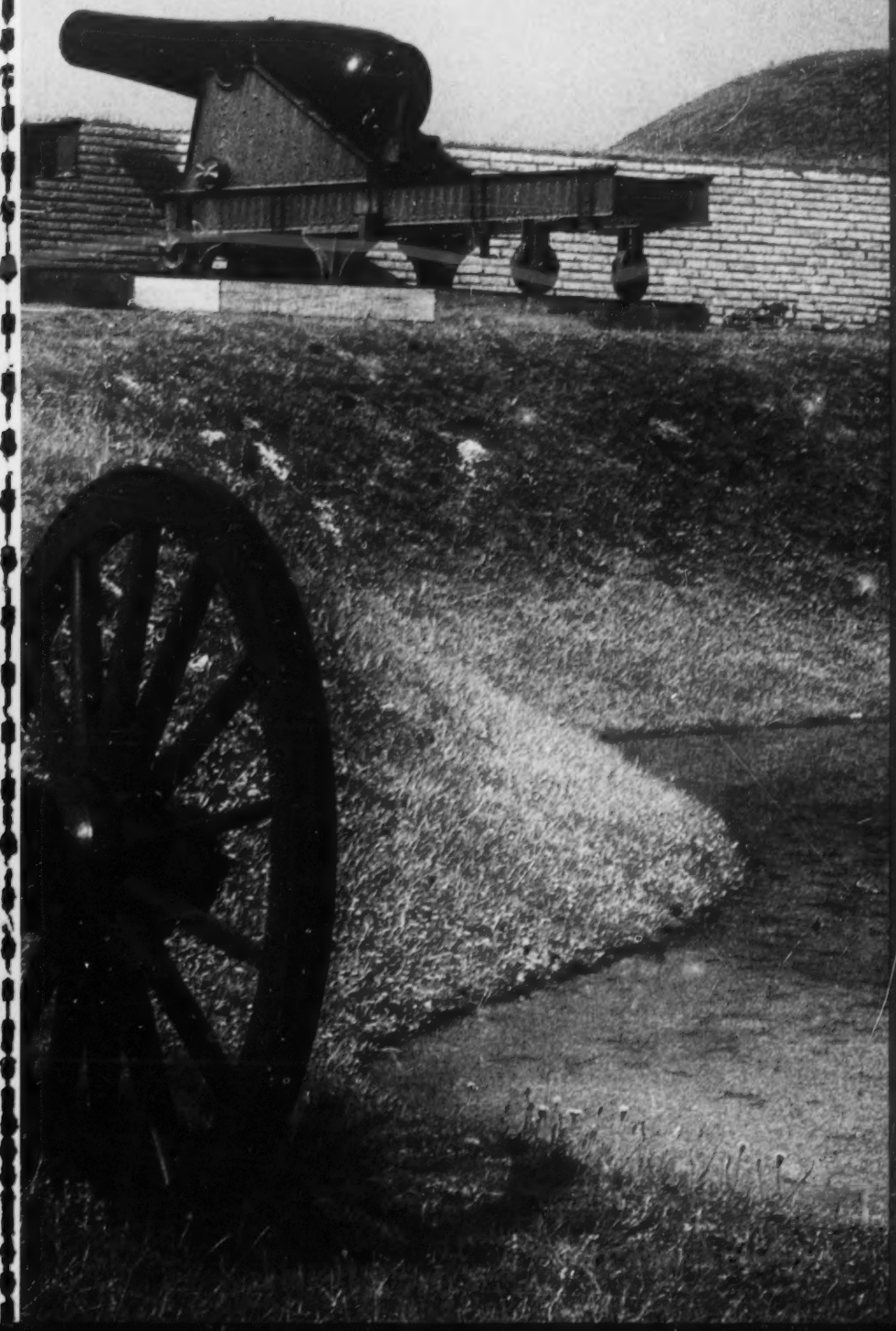

"Cannons of Fort Moultrie" — Located in Charleston, South Carolina, Fort Moultrie has served as the bulwark of security for Charleston Harbor for over two hundred years. Here, the colonists defeated British land and sea troops in the Battle of Sullivan's Island in June of 1776.

STATE OF SOUTH CAROLINA

Office of Comptroller General

Columbia 29211

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COMPTROLLER GENERAL

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COLUMBIA, S.C. 29211
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February 5, 1987

To the Citizens, Governor, and Members of the South Carolina General Assembly:

Introduction

South Carolina's Appropriation Act requires the Comptroller General to work toward issuing statewide financial statements that conform with Generally Accepted Accounting Principles (GAAP). This report represents continued progress toward that goal. This year's report includes several format changes required by GAAP. We plan to present a GAAP-basis balance sheet and all required combining statements in 1986-1987. We further plan to meet all GAAP requirements in 1987-1988.

The data in this report is accurate in all material respects. Furthermore, the report describes all material facts related to the State's financial affairs.

Accounting System and Controls

The Statewide Accounting and Reporting System (STARS) is the State's operating accounting system. This double-entry system processes cash and budgetary transactions and maintains records for all budgeted funds on the legal basis of accounting. The legal basis of accounting is the cash basis with certain exceptions (see Note 1d). In addition, the State's higher education institutions and most of the Enterprise Funds maintain accrual-basis accounting systems. We present the data for those funds, therefore, on the accrual basis.

The State's internal accounting controls provide reasonable, but not necessarily absolute, assurance regarding:

(1) The safeguarding of assets against loss from unauthorized use or disposal; and

(2) The reliability of financial records for preparing financial statements and maintaining accountability for assets.

The concept of reasonable assurance recognizes that the cost of a control should not exceed the resulting benefits.

Powder Magazine — Charleston, South Carolina — During the Revolution, this building was used to store munitions. Built prior to 1713, the Powder Magazine is the oldest public building in Charleston.

Budgetary Control

South Carolina's annual Appropriation Act includes legally adopted budgets for the Budgetary General Fund and for aggregated Other Budgeted Funds. The State budgets revenues on a cash receipts basis. Appropriations for 1985-1986 cover all expenditures deemed applicable to that year and paid on or before July 25, 1986. Unexpended General Fund appropriations lapse unless the Appropriation Act specifically authorizes agencies to carry them forward to the next fiscal year.

The law does not require encumbrance accounting. Accordingly, the State does not record encumbrances. The State maintains budgetary control for expenditures at the level of major object class within each program of each organizational unit. STARS checks to be sure that an account has enough cash and appropriations before it will charge an expenditure to that account. Organizational units may request transfers of appropriations among major object classes and/or among programs within the same budgetary fund. The Budget and Control Board has authority to approve these appropriation transfers.

The initial budget appears in the annual Appropriation Act. The Budget and Control Board reduces the Budgetary General Fund's appropriations during the year if it anticipates a year-end operating deficit. Likewise, the Board may revise estimated revenues of the Budgetary General Fund during

the year if necessary. In some years, the General Assembly passes a Supplemental Appropriation Act that increases appropriations of the Budgetary General Fund.

The law specifies procedures for processing requested budget changes in Other Budgeted Funds and for permanent improvement projects.

The Reporting Entity and Its Services

The State exercises oversight authority over all funds and entities included in this report. The most important element of oversight authority is financial interdependency. Other elements of oversight authority include:

- Selection of governing authority.
- Designation of management.
- Ability to significantly influence operations.
- Accountability for fiscal matters.

These financial statements include all component units and financial activities accounted for in the Statewide Accounting and Reporting System (STARS). In accordance with Generally Accepted Accounting Principles, this year's statements also include the following non-STARS component units over which the State exercises oversight responsibility:

- South Carolina Public Service Authority.
- South Carolina Ports Authority.
- Public Railways Commission (and Tangent Transportation Company).
- South Carolina Education Assistance Authority and Student Loan Corporation.
- South Carolina Research Authority.

This is the first year that this report has included these component units.

We plan to include the following component units in future years:

- All pension plans.
- South Carolina Deferred Compensation Plan.
- State Health Insurance Reserve Fund.
- Local Government Investment Pool.

These component units are part of the State reporting entity but it was not practical to include them fully in this year's report. See Note 1b for additional information.

The State provides a comprehensive range of governmental services including: education, social and health services, transportation, law, justice, recreation and resource development, mental health, and housing.

Kershaw-Cornwallis House — Camden, South Carolina — Built in the mid-eighteenth century, this large, three-storied house was the home of Joseph Kershaw (1727-1791), a prominent early settler of Camden, and was Lord Cornwallis's headquarters at the Battle of Camden during the American Revolution.

General Governmental Functions

The State reports its general governmental functions in the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds. Revenues for general governmental functions totaled $4.604 billion for the fiscal year ended June 30, 1986. This represents an increase of 12.8 percent over fiscal year 1984-1985. Revenues from various sources and the changes relative to last year were:

Expressed in Thousands

Revenue Source	1985-1986	1984-1985	Increase (Decrease) from 1984-1985
Taxes	$2,791,463	$2,625,907	6.3%
Licenses and Fees	116,968	51,417	127.5%
Federal and Other Intergovernmental	1,282,106	1,007,416	27.3%
Charges for Services and Commodities	201,003	172,232	16.7%
Fines and Forfeitures	38,985	8,292	370.2%
All Other Revenues	173,296	217,103	(20.2%)
Totals	$4,603,821	$4,082,367	12.8%

General Governmental Revenue
Fiscal Year 1985-1986

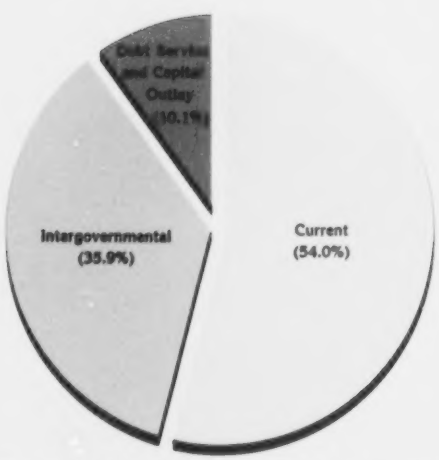
A large part of the increase in Fines and Forfeitures was due to $25.6 million of nonrecurring revenue received in 1985-1986 from settlement of court-ordered oil overcharge cases against various oil companies. Most of the remaining increase in Fines and Forfeitures resulted from increases in court fines. The General Assembly ordered these increases to fund construction, renovation, and operation of local correctional facilities.

Increases in motor vehicle registration and driver license fees were primarily responsible for the large percentage increase in Licenses and Fees. Driver license fees increased from $4 to $10 whereas motor vehicle registration fees increased from $10 to $17.

We did not report receipts and disbursements of Federal food coupons and certain other revenues and expenditures of social services agencies as revenues and expenditures in past years. If 1984-1985 revenues were restated to reflect these reporting changes, the Federal and Other Intergovernmental Revenue category would show less than a 9 percent increase in 1985-1986.

Expenditures for general governmental functions totaled $4.338 billion for the fiscal year ended June 30, 1986. This represents an increase of 15.9 percent over expenditures for the fiscal year ended June 30, 1985. Expenditures by character and function were:

	Expressed in Thousands		
Expenditure Function	1985-1986	1984-1985	Increase (Decrease) from 1984-1985
Current			
General Government	$ 242,909	$ 236,190	2.8%
Education	285,888	264,916	7.9%
Individual and Family Services	1,303,818	916,234	42.3%
Administration of Justice	161,383	118,795	35.9%
Resources and Economic Development	88,593	80,820	9.6%
Transportation	259,064	233,758	10.8%
Miscellaneous	757	767	(1.3%)
Capital Outlay	272,055	255,021	6.7%
Debt Service	165,713	171,916	(3.6%)
Intergovernmental	1,558,177	1,465,984	6.3%
Totals	$4,338,357	$3,744,401	15.9%



General Governmental Expenditures
Fiscal Year 1985-1986

As indicated above, we did not report disbursements of Federal food coupons and certain other expenditures of social services agencies as expenditures in past years. If 1984-1985 expenditures were restated to reflect these 1985-1986 reporting changes, Current Individual and Family Services expenditures would show less than an 18 percent increase in 1985-1986.

There are two major reasons for the increase in Current Administration of Justice expenditures. First, we reported $17.8 million of Current Judicial Department expenditures in the General Government category in 1984-1985. In 1985-1986, however, we reported all Current Judicial Department expenditures in the Administration of Justice category. Most of the remaining $25 million increase in 1985-1986 was due to increases in Department of Corrections expenditures. A court order required the State to expend increased amounts to help remedy inmate overcrowding and certain other conditions within the correctional system.

Financial Highlights — Budgetary General Fund

The General Fund as defined in the annual Appropriation Act is an important point of focus in determining the overall financial condition of the State. The State budgets this fund on the cash basis with certain exceptions (see Note 1e, Budgetary Policies, for detailed information).

Revenues for the Budgetary General Fund totaled $2.509 billion for the fiscal year ended June 30, 1986. This represented an increase of 4.8 percent

over fiscal year 1984-1985. Revenues from various sources and the changes relative to last year were:

Expressed in Thousands

Revenue Source	1985-1986	1984-1985	Increase (Decrease) from 1984-1985
Individual Income Tax	$ 907,285	$ 850,814	6.6%
Retail Sales and Excise Tax	893,319	828,271	7.9%
Corporation Income Tax	185,014	192,151	(3.7%)
All Other Revenues	523,670	522,136	0.3%
Totals	$2,509,288	$2,393,372	4.8%

A major problem area during the 1985-1986 fiscal year was the poor performance of Individual Income Tax revenues. At the beginning of the fiscal year, the official estimate for Individual Income Tax revenue was $1.006 billion. The State collected only $907 million — $99 million (9.8 percent) below the original estimate. Beginning with 1985 tax returns, the State changed the Individual Income Tax computation. Taxpayers now use their Federal taxable income figure as the starting point in computing their state income tax liability.

Expenditures for the Budgetary General Fund totaled $2.592 billion for the fiscal year ended June 30, 1986. This represents an increase of 8.1 percent. Expenditures by function were:

Expressed in Thousands

Expenditure Function	1985-1986	1984-1985	Increase (Decrease) from 1984-1985
Legislative	$ 22,019	$ 20,075	9.7%
Judicial	20,925	18,866	10.9%
Executive and Administrative	117,922	101,544	16.1%
Educational	1,420,610	1,350,248	5.2%
Health	354,438	304,942	16.2%
Social Rehabilitation	92,676	76,433	21.3%
Correctional	132,389	126,448	4.7%
Conservation, Natural Resources and Development	99,465	84,438	17.8%
Regulatory	50,395	44,086	14.3%
Transportation	2,577	3,262	(21.0%)
Debt Service	106,738	103,608	3.0%
Miscellaneous	172,115	163,104	5.5%
Totals	$2,592,269	$2,397,054	8.1%

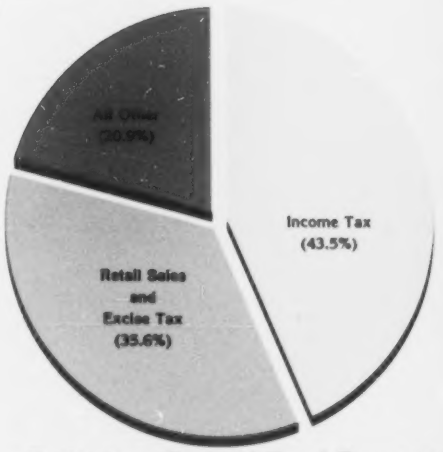
Year-end fund balances for the Budgetary General Fund for the last five years have been:

Expressed in Millions

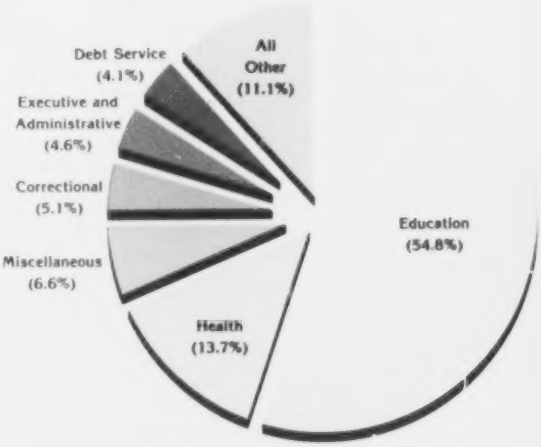
	Fiscal Year Ended June 30				
	1982	1983	1984	1985	1986
General Fund Reserve	$21.1	$40.0	$ 98.5	$ 89.1	$51.8
Reserve for Appropriations Carried Forward	4.4	17.8	54.8	72.4	20.9
Unreserved				(11.9)	(6.1)
Totals	$25.5	$57.8	$153.3	$149.6	$66.6

The General Fund Reserve began 1985-1986 with $89.1 million. As provided by law, the General Fund tapped the Reserve Fund for $37.3 million as the fiscal year came to a close. This left $51.8 million in the Reserve Fund on June 30, 1986.

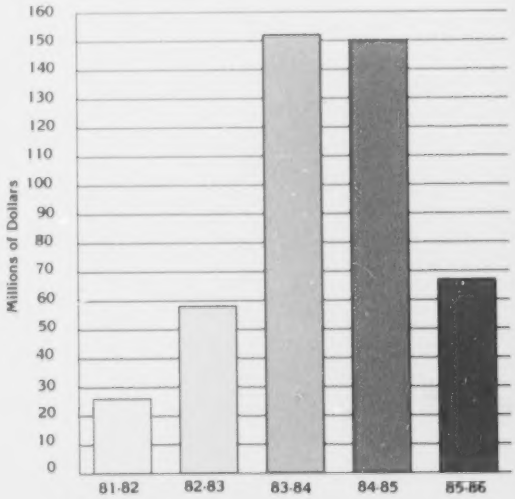
The 1985-1986 fiscal year was the first year of existence for the Capital



Budgetary General Fund Revenue
Fiscal Year 1985-1986



Budgetary General Fund Expenditures
Fiscal Year 1985-1986



Budgetary General Fund Equity
Last Five Fiscal Years

Expenditure Reserve Fund — a part of the General Fund. The 1985-1986 Appropriation Act included an appropriation of $13.0 million for that fund. Mid-year appropriation reductions decreased this figure to $12.7 million. Just before fiscal year 1985-1986 ended, the General Assembly awarded this entire amount to the Department of Corrections for future capital expenditures.

Debt Administration

The State finances many of its major capital needs by issuing bonds. Some of this debt is general obligation debt backed by the full faith, credit, and taxing power of the State. Much of the debt, however, is revenue debt associated with specific State component units. Specific revenues of specific component units back this debt.

Moody's Investors Service has rated South Carolina's general obligation bonds as Aaa, and Standard and Poor's rates this debt as AAA. At June 30, 1986, the State had approximately $659 million in general obligation bonds and notes outstanding. During the year, South Carolina issued $152 million in general obligation debt and retired $120 million. The State budgets and pays principal and interest on general obligation bonds from current resources of the Budgetary General Fund.

The State's higher education institutions and enterprise entities had revenue debt of approximately $2.931 billion outstanding on June 30, 1986. Component units backing this debt include:

$1,938 million	South Carolina Public Service Authority (an electric utility)
717 million	South Carolina Housing Authority
158 million	Various higher education institutions
118 million	Other State component units

The Old Exchange Building — Charleston, South Carolina — South Carolina delegates to the First Continental Congress were elected at the Old Exchange Building in 1774.

Cash Management

As provided by law, the State Treasurer deposits money in a general deposit account if the Budget and Control Board so decides. The State records earnings of the general deposit account as revenue of the General Fund. The Treasurer deposits other funds into various special deposit accounts, each of which retains its own earnings. The Treasurer invests excess cash of the general deposit account and the various special deposit accounts.

State agencies who issue their own checks participate in pooled bank accounts. These agencies issue checks against the pooled bank account. Meanwhile, the bank invests account balances until the checks clear. The General Fund receives the investment income earned on the pooled bank accounts.

Investment earnings for the General Fund totaled $77 million in 1985-1986.

South Carolina's Economy and Prospects for the Future

The State Board of Economic Advisors submits estimates of General Fund revenues to the General Assembly. According to the Board, most of the 1985-1986 General Fund revenue shortfall resulted from the sluggish economy. This sluggishness was caused by several factors, including a lower than expected rate of inflation. According to the Board, lower inflation rates resulted from the break in oil prices and continued depression in commodity prices.

During the first quarter of 1986-1987, the Budgetary General Fund's revenues were 5.4 percent greater than the same quarter of 1985-1986. Data on economic activity in the State, however, indicates that little growth is likely during the next year. Key State economic indicators are showing only nominal changes.

It appears that revenue shortfalls are likely in 1986-1987. The Budget and Control Board already has imposed appropriation cuts as it has in the past

several years in an effort to prevent an operating deficit.

Conclusion

This report demonstrates my continued commitment to progress toward statewide GAAP-basis reporting. I welcome any comments on the content and format of the report.

Acknowledgments

We thank Phillip Jones and the South Carolina Department of Wildlife and Marine Resources for the photograph of Whitewater Falls located in Oconee County, that appears on the cover of this year's report. We also thank the South Carolina Department of Parks, Recreation and Tourism for providing the other photographs within the report.

Sincerely,

Earle E. Morris, Jr.

EARLE E. MORRIS, JR.
Comptroller General

Battle of Sullivan's Island — Charleston, South Carolina — June 28, 1776. Sergeant William Jasper at the Battle of Sullivan's Island raising the provincial flag in the midst of battle. In one of the major engagements of the American Revolution, Colonel William Moultrie's Second South Carolina Regiment, aided by other South Carolina troops, successfully defended the Charleston harbor against English naval and military forces.

STATE OF SOUTH CAROLINA

Selected State Officials

At June 30, 1986

LEGISLATIVE — THE GENERAL ASSEMBLY

Ramon Schwartz, Jr., Speaker, House of Representatives
Michael R. Daniel, President, Senate

EXECUTIVE

STATE BUDGET AND CONTROL BOARD:
- Richard W. Riley, Chairman, Governor
- Earle E. Morris, Jr., Comptroller General
- Grady L. Patterson, Jr., State Treasurer
- Rembert C. Dennis, Chairman, Senate Finance Committee
- Tom G. Mangum, Chairman, Ways and Means Committee

Michael R. Daniel, Lieutenant Governor
John T. Campbell, Secretary of State
T. Travis Medlock, Attorney General
Dr. Charlie G. Williams, State Superintendent of Education
Major General T. Eston Marchant, Adjutant General
D. Leslie Tindal, Commissioner of Agriculture

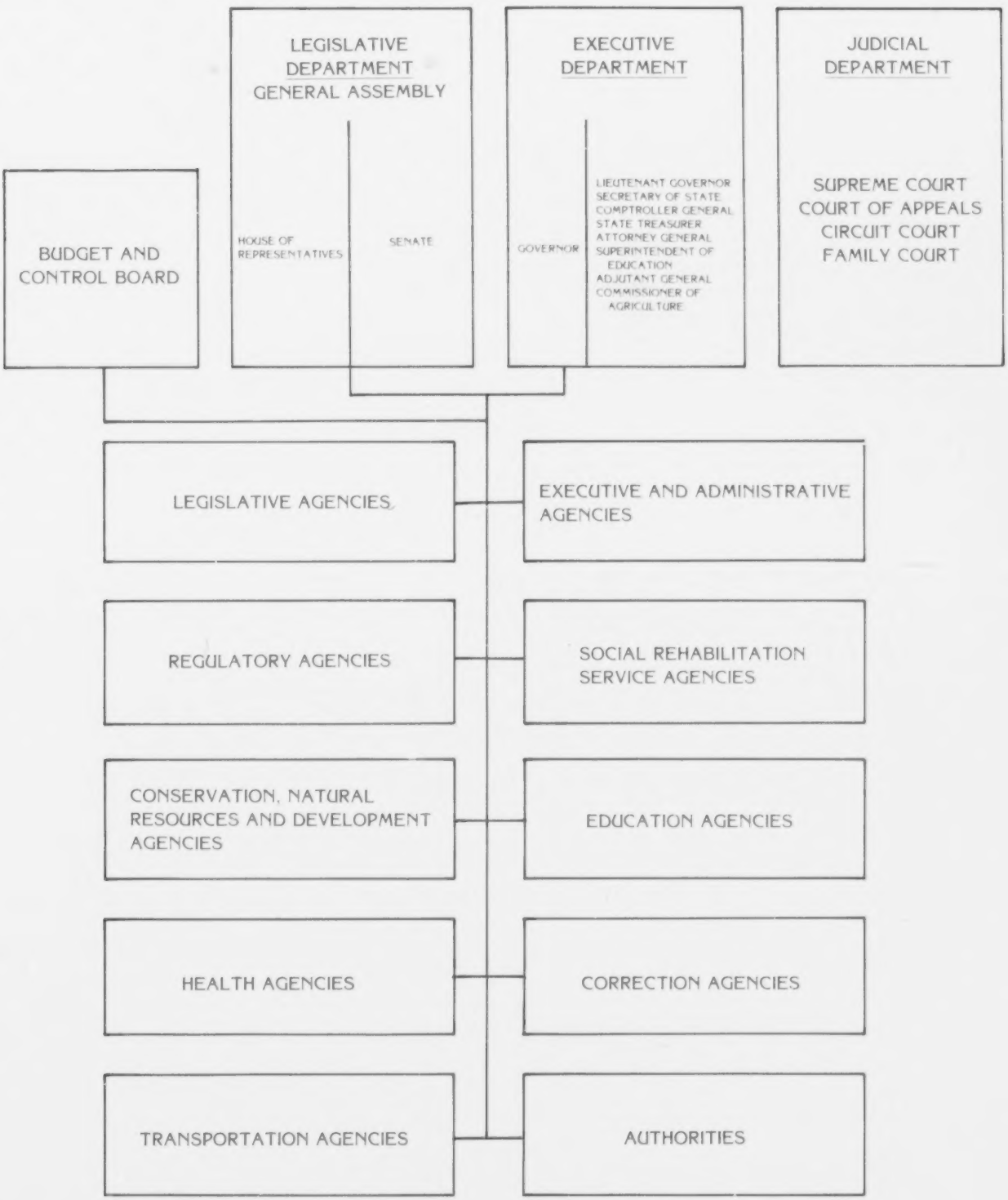
JUDICIAL

J. B. Ness, Chief Justice, South Carolina Supreme Court

STATE OF SOUTH CAROLINA

Organization Chart

At June 30, 1986



FINANCIAL SECTION

"Kings Mountain Monument, Kings Mountain National Military Park" — The British were defeated at the Battle of Kings Mountain on October 7, 1780. It was the turning point of the American Revolution in the South.

GENERAL PURPOSE FINANCIAL STATEMENTS

(Combined Statements — Overview)

STATE OF SOUTH CAROLINA

Combined Balance Sheet (Basis as Described in Note 1d) — All Fund Types and Account Groups

At June 30, 1986

(Expressed in Thousands)

	Governmental Fund Types				Proprietary Fund Types		Fiduciary Fund Types		Account Group	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust and Agency	Higher Education Fund	General Long-Term Debt	Totals (Memorandum Only)
ASSETS										
Cash and Investments	$139,874	$358,004	$81,602	$109,534	$ 50,483	$1,991	$927,899	$ 233,030		$1,902,417
Deposits with Trustees					33,393					33,393
Receivables (net of allowance for uncollectibles)										
Accounts					59,433			60,354		119,787
Revenue Recorded in Thirteenth Month (Note 1g)	21,405	3,010	2,070	447	706	2,995				30,633
Loans to Students, Faculty and Staff					88,884			27,029		115,913
Accrued Interest					3,160					3,160
Inventories (Note 1i)					48,100			11,875		59,975
Prepaid Expenses and Deferred Charges					2,798			1,410		4,208
Due from Other Funds (Note 1h)	5,006	1,759		12,741						19,506
Property, Plant and Equipment					1,908,503			1,165,714		3,074,217
Restricted Assets					353,548					353,548
Other Assets					349,432			32,036		381,468
Amounts to be Provided for the Retirement of General Obligations									$645,200	645,200
Total Assets	$166,285	$362,773	$83,672	$122,722	$2,898,440	$4,986	$927,899	$1,531,448	$645,200	$6,743,425
LIABILITIES AND FUND EQUITY										
Liabilities:										
Accounts and Vouchers Payable (Note 1k)	$ 81,321	$ 70,955	$ 3,035	$ 1,321	$ 29,750	$1,659		$ 68,850		$256,891
Deposits Held in Custody for Others							$925,979	2,405		928,384
Deferred Revenues	5,575	570			32			17,389		23,566
Due to Other Funds (Note 1l)	12,741	4,789			6	50	1,920			19,506
Liabilities Payable from Restricted Assets					1,403					1,403
Notes Payable					4,753			744		5,497
General Obligation Bonds Payable (Note 8)								28,270	$630,245	658,515
Other General Obligations (Note 8)									14,955	14,955
Revenue Bonds Payable (Note 9)					1,972,123			157,757		2,129,880
Priority Obligations (Note 9)					62,385					62,385
Capital Leases (Note 1j)					74,814			12,546		87,360
Other Liabilities					161,961			5,708		167,669
Total Liabilities	99,637	76,314	3,035	1,321	2,307,227	1,709	927,899	293,669	645,200	4,356,011
Fund Equity:										
Contributed Capital (Note 15)					175,984					175,984
Net Investment in Plant								986,493		986,493
Retained Earnings					415,229	3,277				418,506
Fund Balances:										
Reserved for:										
General Fund Reserve (Note 10)	51,775									51,775
Appropriations Carried Forward (Note 12)	20,959									20,959
Higher Education (Note 13)								41,956		41,956
Endowments (Note 13)								9,236		9,236
Unreserved:										
Designated for Debt Service (Note 14)			80,637							80,637
Designated for Quasi-endowments (Note 14)								7,678		7,678
Undesignated (Note 4)	(6,086)	286,459		121,401				192,416		594,190
Total Fund Equity	66,648	286,459	80,637	121,401	591,213	3,277	0	1,237,779	0	2,387,414
Total Liabilities and Fund Equity	$166,285	$362,773	$83,672	$122,722	$2,898,440	$4,986	$927,899	$1,531,448	$645,200	$6,743,425

The Notes to the Combined Financial Statements are an integral part of this statement.

STATE OF SOUTH CAROLINA

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances (Budgetary Basis) — All Governmental Fund Types

For the Fiscal Year Ended June 30, 1986

(Expressed in Thousands)

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Revenues:					
Individual Income Tax	$ 907,285				$ 907,285
Corporate Income Tax	185,014				185,014
Retail Sales and Use Tax	893,320	$ 221,740			1,115,060
Business License Tax	29,993				29,993
Gas and Motor Vehicle Tax	21,978	236,699		$ 158	258,835
Alcoholic Liquors Tax	43,133				43,133
Beer and Wine Tax	60,357				60,357
Insurance Tax	74,980				74,980
Other Taxes	113,608	3,198			116,806
Licenses and Fees	25,607	91,361			116,968
Charges for Services and Commodities	17,452	146,171	$37,099	281	201,003
Fines and Forfeitures	3,029	35,367		589	38,985
Interest and Other Investment Earnings	77,204	3,576	7,250	35	88,065
Federal Revenue	8,505	1,264,562	260	2,131	1,275,458
Indirect Cost Recoveries (Note 1p)	15,553	34,315			49,868
Fees and Receipts from Other Political Entities		6,648			6,648
Other (Note 16)	30,369	39,922	3,456	(38,384)	35,363
Total Revenues	2,507,367	2,083,559	48,065	(35,190)	4,603,821
Expenditures:					
Current:					
General Government	165,683	77,226			242,909
Education	225,712	60,176			285,888
Individual and Family Services	438,150	865,668			1,303,818
Administration of Justice	151,828	9,555			161,383
Resources and Economic Development	61,251	27,342			88,593
Transportation	2,292	256,772			259,064
Miscellaneous	757				757
Total Current	1,045,673	1,296,739	0	0	2,342,412
Capital Outlay	6,364	196,438		69,253	272,055
Debt Service (Note 1c)	106,738	12,410	46,565		165,713
Intergovernmental	1,022,774	535,403			1,558,177
Total Expenditures	2,181,549	2,040,990	46,565	69,253	4,338,357
Excess of Revenues Over (Under) Expenditures	325,838	42,569	1,500	(104,443)	265,464
Other Financing Sources (Uses):					
Bond and Note Proceeds		13,794	14,277	124,332	152,403
Higher Education Fund Transfer (Note 1c)	(397,979)				(397,979)
Capital Expenditure Reserve Fund Transfer (Note 11)	(12,741)			12,741	0
Teacher Loan Program Transfer		(732)			(732)
Public Service Authority Transfer	1,901				1,901
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	(82,981)	55,631	15,777	32,630	21,057
Fund Balance — July 1, 1985 (Note 19)	149,629	230,828	64,860	89,557	534,874
Residual Equity Transfers, Net (Note 15)				(786)	(786)
Fund Balance — June 30, 1986	$ 66,648	$ 286,459	$80,637	$121,401	$ 555,145

The Notes to the Combined Financial Statements are an integral part of this statement.

STATE OF SOUTH CAROLINA

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances — Budget and Actual (Budgetary Basis) — All Budgeted Funds

For the Fiscal Year Ended June 30, 1986

(Expressed in Thousands)

	Budgetary General Fund			Other Budgeted Funds			Total Budgeted Funds		
	Final Budget	Actual	Variance Favorable (Unfavorable)	Final Budget	Actual	Variance Favorable (Unfavorable)	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:									
Admissions Tax	$ 6,450	$ 6,416	$ (34)	$ 2,640	$ 2,814	$ 174	$ 9,090	$ 9,230	$ 140
Aircraft Tax	475	539	64				475	539	64
Alcoholic Liquors Tax	47,700	46,212	(1,488)	105	368	263	47,805	46,580	(1,225)
Bank Tax	8,000	4,171	(3,829)				8,000	4,171	(3,829)
Beer and Wine Tax	64,000	62,488	(1,512)				64,000	62,488	(1,512)
Business License Tax	30,700	29,993	(707)				30,700	29,993	(707)
Cable Television Fees	5		(5)				5		(5)
Coin Operated Device Tax	6,500	8,115	1,615				6,500	8,115	1,615
Commercial Nuclear Waste Tax	5,100	4,656	(444)				5,100	4,656	(444)
Contractors' License Tax	825	808	(17)				825	808	(17)
Corporation Income Tax	210,000	185,014	(24,986)				210,000	185,014	(24,986)
Corporation License Tax	27,200	24,193	(3,007)				27,200	24,193	(3,007)
Department of Agriculture	5,458	5,700	242	3,459	2,233	(1,226)	8,917	7,933	(984)
Department Supported Appropriations	8,953	11,262	2,309	107,862	87,743	(20,119)	116,815	99,005	(17,810)
Documentary Tax	17,500	16,085	(1,415)				17,500	16,085	(1,415)
Earned on Investments	68,100	77,186	9,086	1,819	2,012	193	69,919	79,198	9,279
Education Improvement Act — 1% Sales Tax				222,450	221,740	(710)	222,450	221,740	(710)
Education Improvement Act — Investment Earnings				1,800	2,235	435	1,800	2,235	435
Education Improvement Act — Other				224	270	46	224	270	46
Electric Power Tax	14,100	12,653	(1,447)				14,100	12,653	(1,447)
Estate Tax	24,550	19,946	(4,604)				24,550	19,946	(4,604)
Excise Tax — Casual Sales	9,000	7,728	(1,272)				9,000	7,728	(1,272)
Fertilizer Inspection Tax	225	191	(34)				225	191	(34)
Gasoline Tax — Counties	16,550	16,341	(209)				16,550	16,341	(209)
Gift Tax	1,900	2,316	416				1,900	2,316	416
Individual Income Tax	945,000	907,285	(37,715)				945,000	907,285	(37,715)
Insurance Tax	60,207	65,173	4,966				60,207	65,173	4,966
Miscellaneous Departmental Revenue	15,984	28,402	12,418	2,428,005	2,228,576	(199,429)	2,443,989	2,256,978	(187,011)
Miscellaneous Sources	41,394	41,114	(280)	79,879	110,978	31,099	121,273	152,092	30,819
Motor Transport Fees	5,125	4,552	(573)				5,125	4,552	(573)
Private Car Lines Tax	1,400	1,099	(301)				1,400	1,099	(301)
Public Service Assessment	3,360	3,317	(43)				3,360	3,317	(43)
Public Service Authority	1,850	2,900	1,050				1,850	2,900	1,050
Retail Sales Tax (4%)	880,800	885,591	4,791				880,800	885,591	4,791
Retailers' License Tax	1,400	923	(477)				1,400	923	(477)
Savings and Loan Association Tax (Note 16)	20	(835)	(855)				20	(835)	(855)
Soft Drinks Tax	18,500	18,029	(471)				18,500	18,029	(471)
Workers' Compensation Insurance Tax	7,871	9,725	1,854				7,871	9,725	1,854
Total Revenues	2,556,202	2,509,288	(46,914)	2,848,243	2,658,969	(189,274)	5,404,445	5,168,257	(236,188)
Expenditures:									
Legislative	25,588	22,019	3,569	420	268	152	26,008	22,287	3,721
Judicial	21,296	20,925	371				21,296	20,925	371
Executive and Administrative	123,892	117,922	5,970	207,040	178,683	28,357	330,932	296,605	34,327
Educational	1,427,725	1,420,610	7,115	981,402	853,264	128,138	2,409,127	2,273,874	135,253
Health	360,965	354,438	6,527	627,062	571,891	55,171	988,027	926,329	61,698
Social Rehabilitation Services	97,806	92,676	5,130	411,834	361,903	49,931	509,640	454,579	55,061
Correctional	134,799	132,389	2,410	61,764	50,728	11,036	196,563	183,117	13,446
Conservation, Natural Resources, and Development	102,990	99,465	3,525	76,365	58,640	17,725	179,355	158,105	21,250
Regulatory	52,852	50,395	2,457	50,375	43,119	7,256	103,227	93,514	9,713
Transportation	3,539	2,577	962	1,085	870	215	4,624	3,447	1,177
Debt Service	109,378	106,738	2,640				109,378	106,738	2,640
Miscellaneous	172,230	172,115	115	786	786		173,016	172,901	115
Highway Department	1,761		1,761	469,545	465,181	4,364	471,306	465,181	6,125
Total Expenditures	2,634,821	2,592,269	42,552	2,887,678	2,585,333	302,345	5,522,499	5,177,602	344,897
Excess of Revenues Over (Under) Expenditures	(78,619)	(92,981)	(4,362)	(39,435)	73,636	113,071	(118,054)	(9,345)	108,709
Budgetary Fund Balance — July 1, 1985 (Note 19)	149,629	149,629		277,463	277,463		427,092	427,092	
Budgetary Fund Balance — June 30, 1986	$ 71,010	$ 66,648	$ (4,362)	$ 238,028	$ 351,099	$113,071	$ 309,038	$ 417,747	$108,709

The Notes to the Combined Financial Statements are an integral part of this statement.

STATE OF SOUTH CAROLINA

Combined Statement of Revenues, Expenses, and Changes in Retained Earnings (Basis as Described in Note 1d) — All Proprietary Fund Types

For the Fiscal Year Ended June 30, 1986

(Expressed in Thousands)

	Proprietary Fund Types		Totals (Memorandum Only)
	Enterprise	Internal Service	
Operating Revenues:			
Charges for Services and Commodities	$505,554	$30,269	$535,823
Interest and Other Investment Earnings	40,502	86	40,588
Contributions	170		170
Other	214	950	1,164
Total Operating Revenues	546,440	31,305	577,745
Operating Expenses:			
General Operations and Administration	300,209	29,810	330,019
Interest	165,352		165,352
Depreciation and Amortization	74,971		74,971
Other	4,978	2,014	6,992
Total Operating Expenses	545,510	31,824	577,334
Operating Income (Loss) (Note 17)	930	(519)	411
Nonoperating Revenues	34,507		34,507
Nonoperating Expenses	(1,947)		(1,947)
Income Before Operating Transfers	33,490	(519)	32,971
Transfers:			
Teacher Loan Program Transfer	732		732
Public Service Authority Transfer	(1,901)		(1,901)
Net Income (Loss)	32,321	(519)	31,802
Retained Earnings — July 1, 1985			
As Previously Reported (Note 19)	1,742	3,796	5,538
Prior Period Adjustments (Note 19)	381,166		381,166
Retained Earnings — July 1, 1985, Restated (Note 19)	382,908	3,796	386,704
Retained Earnings — June 30, 1986	$415,229	$ 3,277	$418,506

The Notes to the Combined Financial Statements are an integral part of this statement.

STATE OF SOUTH CAROLINA

Combined Statement of Changes in Financial Position (Basis as Described in Note 1d) — All Proprietary Fund Types

For the Fiscal Year Ended June 30, 1986

(Expressed in Thousands)

	Proprietary Fund Types		Totals (Memorandum Only)
	Enterprise	Internal Service	
Sources of Working Capital:			
Net Income (Loss)	$ 32,321	$ (519)	$31,802
Add (Deduct) Items Not Affecting Working Capital			
Depreciation and Amortization	74,971		74,971
Deferred Income Recognized As Earned	(11)		(11)
Reimbursed Costs	340		340
Costs to be Recovered From Future Revenue	(27,863)		(27,863)
Working Capital Provided by Operations	79,758	(519)	79,239
Decrease in Long-Term Investments	12,222		12,222
Decrease in Restricted Assets	6,733		6,733
Disposal of Property, Plant and Equipment	493		493
Increase in Current Liabilities Payable From Restricted Assets	53		53
Increase in Other Current Liabilities	173		173
Increase in Other Noncurrent Liabilities	6,167		6,167
Repayment of Student Loans Receivable	6,396		6,396
Sale of Bonds/Notes	210,350		210,350
Increase in Contributed Capital	986		986
Total Sources of Working Capital	323,331	(519)	322,812
Uses of Working Capital:			
Acquisition of Property, Plant and Equipment	50,264		50,264
Increase in Restricted Assets	41,779		41,779
Increase in Other Noncurrent Assets	1,351		1,351
Decrease in Current Liabilities Payable From Restricted Assets	1,152		1,152
Make Student Loans	33,333		33,333
Decrease in Long-Term Debt	183,498		183,498
Decrease in Other Noncurrent Liabilities	7,674		7,674
Other Uses	29,657		29,657
Decrease in Contributed Capital	200		200
Total Uses of Working Capital	348,908	0	348,908
Net Increase (Decrease) in Working Capital	$(25,577)	$ (519)	$(26,096)
Elements of Net Increases (Decreases) in Working Capital:			
Cash and Investments	$ (3,594)	$(1,348)	$ (4,942)
Deposits With Trustees	333		333
Revenue Recorded in Thirteenth Month	38	1,573	1,611
Accounts Receivable	12,074		12,074
Accrued Interest Receivable	(1,400)		(1,400)
Inventories	(9,997)		(9,997)
Prepaid Expenses and Deferred Charges	332		332
Other Current Assets	617		617
Accounts and Vouchers Payable	5,341	(694)	4,647
Due to Other Funds	14	(50)	(36)
Other Current Liabilities	(29,335)		(29,335)
Net Increase (Decrease) in Working Capital	$(25,577)	$ (519)	$(26,096)

The Notes to the Combined Financial Statements are an integral part of this statement.

STATE OF SOUTH CAROLINA

Combined Statement of Changes in Fund Balances — Higher Education Fund

For the Fiscal Year Ended June 30, 1986

(Expressed in Thousands)

	Current Funds	
	Unrestricted	Restricted
Revenues and Other Additions:		
Unrestricted Current Fund Revenues	$355,870	
Tuition and Fees — Restricted		
Private Gifts, Grants, and Contracts — Restricted		$22,373
Federal Grants and Contracts — Restricted		64,705
Investment Income — Restricted		1,176
Realized Gains on Investments — Unrestricted		
Realized Gains on Investments — Restricted		
Expended for Plant Facilities		
Retirement of Indebtedness		
Other		6,275
Total Revenues and Other Additions	355,870	94,529
Expenditures and Other Deductions:		
Educational and General Expenditures	541,358	87,790
Auxiliary Enterprises Expenditures	91,075	55
Indirect Costs Recovered	147	5,349
Loan Cancellations and Write-offs		
Administrative and Collection Costs		21
Expended for Plant Facilities		
Retirement of Indebtedness		
Interest on Indebtedness		
Disposal of Plant Facilities		
Other	95,361	334
Total Expenditures and Other Deductions	727,941	93,549
Transfers Among Funds — Additions/(Deductions):		
Mandatory:		
Principal and Interest	(11,996)	(1,176)
Renewals and Replacements	(269)	
Loan Fund Matching Grant	(61)	(8)
Other	(26)	26
Other Transfers	(8,600)	(896)
Total Transfers	(20,952)	(2,054)
Other Additions/(Deductions):		
State General Fund Transfers	397,979	
Net Increase/(Decrease) for the Year	4,956	(1,074)
Fund Balance — July 1, 1985, As Previously Reported (Note 19)	40,819	13,731
Prior Year Adjustment (Note 19)	(9,284)	(692)
Fund Balance — July 1, 1985, Restated (Note 19)	31,535	13,039
Fund Balance — June 30, 1986	$ 36,491	$11,965

The Notes to the Combined Financial Statements are an integral part of this statement.

Loan Funds	Endowment and Similar Funds	Plant Funds: Unexpended	Plant Funds: Renewals and Replacements	Plant Funds: Retirement of Indebtedness	Plant Funds: Investment in Plant	Total
						$ 355,870
		$ 1,265		$ 4,116		5,381
	$ 1,930	619			$ 484	25,406
$ 936		805		69		66,515
620	1,165	260		3,174		6,395
	46					46
	14					14
					72,993	72,993
		28			10,846	10,874
157	357	67,893		3,554	3,958	82,194
1,713	3,512	70,870	$ 0	10,913	88,281	625,688
	549					629,697
						91,130
						5,496
333						333
307	62			12		402
		47,092	145			47,237
				7,712		7,712
				9,282		9,282
					24,648	24,648
350	15	132		221		96,413
990	626	47,224	145	17,227	24,648	912,350
		466		12,706		0
		918		(649)		0
69						0
						0
108	(1)	6,964	298	5,764	(3,637)	0
177	(1)	8,348	298	17,821	(3,637)	0
						397,979
900	2,885	31,994	153	11,507	59,996	111,317
26,994	13,931	84,324	1,799	27,061	866,647	1,075,306
1,633	98	(1,751)	(1,053)	2,355	59,850	51,156
28,627	14,029	82,573	746	29,416	926,497	1,126,462
$29,527	$16,914	$114,567	$ 899	$40,923	$986,493	$1,237,779

STATE OF SOUTH CAROLINA

Combined Statement of Current Funds Revenues, Expenditures, and Other Changes — Higher Education Fund

For the Fiscal Year Ended June 30, 1986

(Expressed in Thousands)

	Unrestricted	Restricted	Total
Revenues:			
Tuition and Fees	$109,488	$ 1,191	$110,679
Federal Grants and Contracts	4,595	62,549	67,144
State Grants and Contracts	73	4,185	4,258
Local Grants and Contracts	401	573	974
Private Gifts, Grants, and Contracts	6,632	16,679	23,311
Endowment Income	20	539	559
Sales and Services of Educational Departments	5,390	53	5,443
Sales and Services of Auxiliary Enterprises	104,395		104,395
Other Sources	124,876	3,234	128,110
Total Current Revenues	355,870	89,003	444,873
Expenditures and Mandatory Transfers:			
Education and General:			
Instruction	252,555	6,748	259,303
Research	30,007	37,991	67,998
Public Service	51,678	16,410	68,088
Academic Support	46,976	1,429	48,405
Student Services	29,275	1,019	30,294
Institutional Support	65,835	839	66,674
Operation and Maintenance of Plant	64,258	147	64,405
Scholarships and Fellowships	774	23,207	23,981
Educational and General Expenditures	541,358	87,790	629,148
Mandatory Transfers for:			
Principal and Interest	3,417	1,176	4,593
Renewals and Replacements	269		269
Loan Fund Matching Grant	61	8	69
Other	26	(26)	0
Total Educational and General	545,131	88,948	634,079
Auxiliary Enterprises:			
Expenditures	91,075	55	91,130
Mandatory Transfers:			
Principal and Interest	8,579		8,579
Total Auxiliary Enterprises	99,654	55	99,709
Total Expenditures and Mandatory Transfers	644,785	89,003	733,788
Other Transfers and Additions/(Deductions):			
Excess of Restricted Receipts Over Transfers to Revenues		5,526	5,526
State General Fund	397,979		397,979
Other	(104,108)	(6,600)	(110,708)
Net Increase (Decrease) in Fund Balance	$ 4,956	$(1,074)	$ 3,882

The Notes to the Combined Financial Statements are an integral part of this statement.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Presentation — General

These financial statements represent an aggregation of data from:

1. The Statewide Accounting and Reporting System (STARS) — the State's centralized computer-based accounting system.
2. Agency-prepared component unit financial statements for higher education institutions (except for technical colleges).
3. Audited component unit financial statements for five non-STARS component units (see Note 1b — Scope of Reporting Entity).
4. The State Treasurer's Office (data in the General Long-Term Debt Account Group and debt-related footnote disclosures).

Insofar as possible, the statements are in conformity with generally accepted accounting principles (GAAP). There remain, however, *material* departures from GAAP as disclosed in these notes.

Amounts in the "Total — Memorandum Only" columns in the combined financial statements represent an aggregation of the combined financial statement line-items. We present this column only for analytical purposes. Amounts in the "Total — Memorandum Only" columns are not comparable to a consolidation.

b. Scope of Reporting Entity

These financial statements include all component units and financial activities accounted for in the Statewide Accounting and Reporting System (STARS). In accordance with generally accepted accounting principles, these statements also include the following other component units over which the State exercises oversight responsibility:

1. South Carolina Public Service Authority (Santee-Cooper).
2. South Carolina Ports Authority.
3. Public Railways Commission (and Tangent Transportation Company) — for the fiscal year ended December 31, 1985.
4. South Carolina Education Assistance Authority and Student Loan Corporation.
5. South Carolina Research Authority.

The following component units are includable in the State reporting entity. We have not fully included them in the financial statements, however, because it currently is not practical to do so:

1. South Carolina Retirement System.
2. Police Officers' Retirement System.
3. Retirement System for Members of the General Assembly.
4. Retirement System for Judges and Solicitors.
5. South Carolina Deferred Compensation Plan.
6. State Health Insurance Reserve Fund.
7. Local Government Investment Pool.

These financial statements also currently exclude the lending activities of the South Carolina Housing Authority, South Carolina Jobs — Economic Development Authority, and the South Carolina Family Farm Development Authority.

We have fully included the area technical colleges in the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances — Budget and Actual (Budgetary Basis) — All Budgeted Funds. These colleges, however, are excluded from the other combined financial statements to the extent that they have revenues that do not flow through the State Board for Technical and Comprehensive Education.

These financial statements represent a simple aggregation of data obtained from STARS and from component unit financial statements. STARS accounts held by the State Treasurer on behalf of the higher education institutions and the Education Assistance Authority are reported twice within these financial statements. The magnitude of this double reporting is unknown.

c. Basis of Presentation — Fund Accounting

In order to ensure the observance of restrictions on the use of resources available to the State, the State maintains its accounts in accordance with the principles of fund accounting. Under fund accounting, resources are accounted for in various individual funds. The State segregates these resources for the purpose of carrying on specific activities or of attaining certain objectives in accordance with specific regulations, restrictions, or limitations. Each individual fund is an accounting entity with a self-balancing set of accounts recording cash and other financial resources. Each fund also records all related liabilities and residual equities or balances and changes therein. We have combined individual funds that have similar characteristics into generic fund types. We have further grouped the generic fund types into categories. A brief description of these combined fund types as used in these statements and the categories into which they are grouped follows. See Note 1e for information about the State's budgetary funds.

Governmental Funds:

Governmental Funds are those through which the State finances most of its governmental functions. The measurement focus of the Governmental Funds is on sources, uses, and balances of financial resources. The State uses the following Governmental Fund types:

The General Fund — This is the State's general operating fund. It accounts for financial resources that fund services traditionally provided by State government but not accounted for in other funds.

Special Revenue Funds — This fund type accounts for the proceeds of specific revenue sources (other than for Trust Funds and major capital projects). The law restricts these resources to expenditure for specified purposes. This fund type includes, for example, resources that a particular component unit both collects and expends. This fund type also includes most Federal grant funds.

Capital Projects Funds — This fund type accounts for financial resources to be used for the acquisition, construction, renovation, maintenance, and repair of major capital facilities. The General Fund, however, makes some such

expenditures. Proceeds from bond anticipation notes are recorded in the Capital Projects Funds as an Other Financing Source when sold and as a debt service expenditure when retired.

Debt Service Funds — This fund type accounts for the accumulation of resources for general (and some fund) long-term debt principal and interest. Expenditures for long-term debt principal and interest appear either in the Debt Service Funds or in the General Fund as described below.

In accordance with Section 122 of the 1985-1986 Appropriation Act, the State pays principal and interest for all general obligation bonds from its Budgetary General Fund. Resources designated to pay principal and interest on general obligation Highway Bonds and State Institution Bonds are accumulated in the Debt Service Funds and in the Special Revenue Funds. These resources are then transferred to the General Fund as needed to reimburse that fund for the related principal and interest expenditures. The transfers are recorded as revenues in the General Fund and expenditures in the paying fund.

Expenditures for principal and interest for some revenue debt issues currently are recorded in the Debt Service Funds.

Proprietary Funds:

The State uses Proprietary Funds to account for ongoing activities similar to those found in the private sector. The Proprietary Fund types used by the State are:

Enterprise Funds — This fund type accounts for activities of the State that are financed and operated in a manner similar to private business enterprises where the State intends that the costs of providing the associated goods or services to the general public be recovered through user charges. The measurement focus in these funds is on determination of net income. These funds use accrual accounting.

Internal Service Funds — This fund type is used to account for the financing of goods or services provided by one State component unit to other State component units or to other governments on a cost-reimbursement basis. Examples include certain operations of the State Budget and Control Board. According to generally accepted accounting principles, the measurement focus of these funds should be upon determination of net income. For example, fixed assets and inventories should be capitalized initially and expensed when used. At this time, however, South Carolina accounts for Internal Service Funds using the same measurement focus and basis of accounting as is used for the Governmental Funds. (See also Note 1d, Basis of Accounting, and Note 1e, Budgetary Policies.)

Fiduciary Funds:

Fiduciary Funds are used to account for resources held by the State as a trustee or agent for individuals, private organizations, other governmental units, or other funds. Under generally accepted accounting principles, the State should classify each Trust Fund for accounting measurement purposes as either a Governmental Fund or Proprietary Fund. Specifically, Expendable Trust Funds should be accounted for in a manner similar to Governmental Funds whereas Nonexpendable Trust and Pension Trust Funds should be accounted for in a manner similar to Proprietary Funds. Agency Funds, however, are purely custodial and thus do not involve measurement of results of operations.

Trust and Agency Funds — The State currently does not classify Expendable Trust, Nonexpendable Trust, Pension Trust, and Agency Funds separately. All of these funds are accounted for as if they were Agency Funds. The Trust and Agency Fund type, therefore, appears only on the Combined Balance Sheet (Basis as Described in Note 1d) — All Fund Types and Account Groups. No equity balances, revenues, or expenditures appear.

Account Groups:

Generally accepted accounting principles require that two account groups be used to establish accounting control and accountability for a government's general fixed assets and the unmatured principal of its general long-term debt financed from Governmental Funds.

General Fixed Assets Account Group — The data needed to present a General Fixed Assets Account Group and required disclosures detailing the changes in general fixed assets currently is not available.

General Long-Term Debt Account Group — This account group currently includes only general obligation bonds and notes payable. Accrued compensated absences (see Note 1r, Compensated Employee Absences), capital leases payable (see Note 1j, Fixed Assets, Depreciation, Leases, and Installment Purchases), and other required disclosures are omitted because the necessary data currently is unavailable on a statewide basis. The General Long-Term Debt Account Group includes long-term debt that will be financed from Governmental Funds. Long-term debt of the Proprietary Funds and of the Higher Education Fund is accounted for in those funds rather than in the General Long-Term Debt Account Group.

Higher Education Fund:

The financial activities of the State-supported higher education institutions (except for area technical colleges) and the affiliated university hospitals are reported in the Higher Education Fund. The financial statements of that fund are prepared in accordance with the American Institute of Certified Public Accountants' "Industry Audit Guide — Audits of Colleges and Universities" and, accordingly, are presented separately.

Cash draws of the higher education institutions appear as expenditures on the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances — Budget and Actual (Budgetary Basis) — All Budgeted Funds. On all other combined operating statements, however, the institutions' cash draws from the General Fund appear as Operating Transfers from the General Fund to the Higher Education Fund.

d. Basis of Accounting

Except for the Enterprise Funds and the Higher Education Fund, the State currently prepares its financial statements on the legal basis of accounting (see Note 1e, Budgetary Pol-

icies). South Carolina's legal basis differs from generally accepted accounting principles. Consequently, certain revenues and the related assets in those funds are recognized when received rather than when earned. Also, certain expenditures/expenses are recognized when paid or encumbered rather than when the State incurs an obligation. Accordingly, *the accompanying financial statements are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.*

The State reports the Enterprise Funds and the Higher Education Fund on the accrual basis of accounting. Most data needed to convert legal-basis revenues, expenditures/expenses, and other operating sources (uses) in other funds to conform with generally accepted accounting principles currently is not available.

e. Budgetary Policies

South Carolina's budget does not use the same fund terminology as generally accepted accounting principles. Instead, the annual Appropriation Act budgets for the following funds:

Budgetary General Fund — This budgetary fund is the State's general operating fund. Its revenues are principally general taxes. Its expenditures are those incurred to provide the services traditionally provided by the State.

Other Budgeted Funds — All budgeted revenue sources not identified as Budgetary General Fund revenues in the Appropriation Act are reported as Other Budgeted Funds. This includes most Federal and department-generated revenues.

The State does not budget most of its Trust and Agency Funds.

Few State laws discuss the legal basis of accounting. Section 1A of the 1985-1986 Appropriation Act states that the General Assembly intends to appropriate all funds for the operations of State government for the fiscal year. Section 173 of that Act requires that appropriations unexpended on July 31 lapse unless specifically authorized to be carried forward to the next fiscal year. The Act also requires that pay checks issued on July 1 and July 16 be recorded as expenditures of the new fiscal year although those checks are almost entirely for services that employees rendered in the preceding fiscal year. In summary, State law does not precisely define the budgetary basis of accounting. In practice, however, this is the cash basis with the following exceptions:

1. Revenues collected in advance are recorded as liabilities rather than as revenues.
2. The State holds the books open for one month after the close of the fiscal year. Revenue Recorded in the Thirteenth Month is the asset associated with net increases in certain old-year revenues collected during this period.
3. Some expenditures paid in July are charged against appropriations of the preceding fiscal year. In practice, these expenditures are those for which the paying agency submits to the Comptroller General's Office:
   a. An invoice dated June 30 or before,
   b. An invoice stating that services were rendered on or before June 30, or
   c. A purchase order dated June 30 or before.

   Accounts and Vouchers Payable is the liability associated with these expenditures.

Authorized carryforward amounts are shown in the financial statements as a reserve of fund balance. Encumbrance accounting is not legally mandated, and encumbrances are not recorded in the Statewide Accounting and Reporting System.

Budgetary control is generally required to be maintained at the level of major object class of expenditure within each program of each organization unit. The Statewide Accounting and Reporting System incorporates controls to ensure that the State processes vouchers only when both sufficient cash and appropriations exist to cover the expenditure. Component units of State government may request transfers of appropriations among major object classes and/or among programs within the same budgetary fund. The Budget and Control Board has the authority under Section 145 of the 1985-1986 Appropriation Act to approve appropriation transfers.

Each year, the Appropriation Act enacted by the General Assembly includes an initial budget for all budgeted funds. Article X, Section 7 of the South Carolina Constitution states that the General Assembly shall provide by law for a budget process to insure that annual expenditures of State government may not exceed annual revenue. Sections 135 and 144 of the 1985-1986 Appropriation Act further authorize and direct the Budget and Control Board to reduce General Fund appropriations during the year if necessary to prevent a deficit. Likewise, the Budget and Control Board revises estimated revenues for the General Fund during the year if considered warranted. In some years, the General Assembly passes a Supplemental Appropriation Act that increases appropriations of the Budgetary General Fund.

In accordance with Chapter 2-65 of the South Carolina Code of Laws, agencies may revise budgeted revenues and expenditures in Other Budgeted Funds upon the approval of the Governor with the concurrence of the Joint Appropriation Review Committee and review by the Budget and Control Board. In addition, Chapter 2-47 requires that budgets for permanent improvement projects not specifically authorized by the General Assembly be approved by the Budget and Control Board following review by the Joint Bond Review Committee.

f. Cash and Investments

In accordance with Section 11-13-40 of the South Carolina Code of Laws, the State Treasurer keeps monies that agencies deposit in a general deposit account if, in the opinion of the Budget and Control Board, they may properly be so consolidated. Earnings of the general deposit account are revenue of the Budgetary General Fund as required by Section 11-13-125 of the Code of Laws. The State Treasurer segregates monies that cannot properly be consolidated into various special deposit accounts, each of which retains its own earnings.

The State Treasurer invests excess cash of the general deposit account and of the various special deposit accounts. The investment transactions are not recorded in the Statewide Accounting and Reporting System (STARS). Therefore, we currently do not report separate figures for cash and

investments. Investments are stated at cost.

g. Revenue Recorded in Thirteenth Month

See Note 1d, Basis of Accounting, and Note 1e, Budgetary Policies.

h. Interfund Receivables — Due From Other Funds

The Statewide Accounting and Reporting System records short-term interfund loans as interfund receivables (Due From Other Funds) in the lending fund. These loans must be liquidated within one month after the end of the fiscal year.

The State does not record the receivables associated with long-term interfund loans. Also, interfund receivables associated with goods and services provided by one fund to another and operating transfers normally are reported as part of Revenue Recorded in the Thirteenth Month. We have not, therefore, provided detailed disclosures required for interfund receivables. This year, however, the Due from Other Funds account in the Capital Projects Funds includes an amount for an operating transfer from the General Fund's Capital Expenditure Reserve. The General Assembly approved the transfer before June 30 but the cash was transferred after that date.

i. Inventories

Only the Enterprise Funds and the Higher Education Fund currently record inventories as assets. The other funds record expenditures/expenses when they purchase inventory items. Although these funds maintain inventory records, there are no centralized statewide inventory records.

j. Fixed Assets, Depreciation, Leases, and Installment Purchases

Fixed assets and related lease information are presented in these financial statements only for the Enterprise Funds and the Higher Education Fund. Only the Enterprise Funds currently report depreciation.

The remaining funds record an expenditure or expense when they disburse cash to purchase fixed assets, to make installment payments on fixed assets, or to pay construction invoices. Although these funds maintain fixed asset and lease records, there are no centralized statewide records. These funds currently do not record depreciation.

Because of the factors outlined above, we do not present the detailed disclosures required by generally accepted accounting principles for fixed assets, depreciation, lease obligations, and installment purchase obligations.

k. Accounts and Vouchers Payable

See Note 1d, Basis of Accounting, and Note 1e, Budgetary Policies.

l. Interfund Payables — Due To Other Funds

The Statewide Accounting and Reporting System records short-term interfund loans as interfund payables (Due to Other Funds) in the borrowing fund. These loans must be liquidated within one month after the end of the fiscal year.

The State does not record the payables associated with long-term interfund loans. It also normally reports interfund payables resulting from goods and services provided by one fund to another and from operating transfers as Accounts and Vouchers Payable or as negative Revenues Collected in the Thirteenth Month. (See also Note 1q, Operating Transfers.) We have not, therefore, provided detailed disclosures required for interfund payables. This year, however, the Due to Other Funds account in the General Fund includes an amount for an operating transfer to the Capital Projects Funds. The General Assembly approved this transfer before June 30 but the cash was transferred after that date.

m. Reserve For Appropriations To Be Carried Forward

See Note 1e, Budgetary Policies. A later note presents more detailed information regarding this reserve.

n. General Fund Reserve

Section 11-11-310 of the South Carolina Code of Laws and Article III, Section 36 of the South Carolina Constitution establish a General Fund Reserve. The primary purpose of this Reserve is to prevent General Fund deficits. A later note presents more detailed information regarding this reserve.

o. Capital Expenditure Reserve

Section 11-11-310 of the South Carolina Code of Laws establishes a Capital Expenditure Reserve to allow the State to accelerate the retirement of state bonded indebtedness and/or to avoid issuing bonds for projects that are authorized but not otherwise funded. The General Fund is to fund the Capital Expenditure Reserve. The law, however, requires the Budget and Control Board to reduce the current year's funding of this reserve before mandating any cuts in State agency operating appropriations. A later note presents more detailed information regarding this reserve.

p. Intergovernmental Revenues — Indirect Cost Recoveries

Receipts from other governments are first recorded as revenue in a fund other than the General Fund. In order to compensate the General Fund for the cost of administering intergovernmental revenues, these other funds remit indirect cost payments to the General Fund. Indirect cost payments are recorded as increases in General Fund revenue and as decreases in revenue for the paying fund. This results in understatement of both revenue and expenditure in the paying fund.

q. Operating Transfers

Information needed to report operating transfers in and out for each fund type as required by generally accepted accounting principles is not recorded in the Statewide Accounting and Reporting System. Most operating transfers, therefore, are not shown as such in these statements. Some transactions that should be recorded as operating transfers currently are recorded as revenues of the receiving fund and expenditures of the paying fund. Other such transactions are recorded as revenues of the receiving fund and negative revenues of the paying fund.

r. Compensated Employee Absences

Full-time permanent State employees earn a minimum of 15 days per year of both vacation and sick leave. For the first ten years of service, employees earn 15 days of vacation and sick leave annually. After ten years of service, employees earn an additional 1.25 days of vacation leave for each year of service over ten years, until they reach the maximum of 30 days per year. Employees may carry forward a maximum of 45 days of vacation leave and 180 days of sick leave from one calendar year to the next. Upon termination of employment, the State pays employees for accumulated vacation leave at the pay rate in effect at the termination date. The number of days paid plus days used in the calendar year when the employee terminates, however, may not exceed 45 days. The State pays retiring employees, however, for up to 45 days of accumulated vacation leave, regardless of any leave they use during their last working calendar year.

Rights to accumulated sick leave do not vest. Employees forfeit all rights to sick leave upon termination or retirement.

We currently report liabilities for compensated employee absences only in the Enterprise Funds and the Higher Education Fund. Although other funds maintain their own leave records, there are no centralized statewide records.

s. Self-Insurance Funds

The State's Fiduciary Funds include several self-insurance funds. Specifically, the State itself (rather than an insurance carrier) assumes substantially all risks associated with:

1. Claims of State employees for Unemployment Compensation benefits.
2. Claims of covered employees for Workers' Compensation and Second Injury Fund benefits.
3. Claims of covered public employees for health insurance, dental insurance, and group life insurance benefits. (Claims administration services, however, are provided by insurance carriers.)
4. Patients' Compensation Fund benefits in covered medical malpractice cases.

In addition, the State maintains an Insurance Reserve Fund to provide:

1. Property insurance on public buildings, including schools, and their contents.
2. General tort liability insurance covering the State and its political subdivisions.
3. Medical malpractice insurance for State and other covered hospitals.
4. Insurance on State-owned motor vehicles, school buses, and aircraft.

The Insurance Reserve Fund may reinsure such portion of these liabilities as is commensurate with the principles of safe underwriting. At June 30, 1986, the risk was apportioned between the State and reinsurance as follows:

Type of Insurance	Retained by State	Reinsured
Property	$500,000/location, $5 million/occurrence	$395 million
General Tort	$1 million for claims resulting from denial of due process	100% for all other claims
Medical Professional Liability — Physicians	$250,000	$750,000

Effective January 1, 1987, the tort reinsurance contract is cancelled. After that date, the State plans to self-insure all tort liability.

NOTE 2: BALANCED BUDGET — BUDGETARY GENERAL FUND

Article X, Section 7 of the South Carolina Constitution states that the General Assembly shall provide by law for a budget process to insure that annual expenditures of State government not exceed annual revenues. The schedule below shows that the budget for the fiscal year ended June 30, 1986, for the Budgetary General Fund enacted by the General Assembly complied with this requirement.

Per Appropriation Act — Budgetary General Fund (expressed in thousands):	
Estimated Revenues	$2,600,221
Appropriations	2,600,174
Excess of Estimated Revenues Over Appropriations	$ 47

NOTE 3: LIMITATION ON NUMBER OF STATE EMPLOYEES — BUDGETARY GENERAL FUND

Section 11-11-420 of the South Carolina Code of Laws states that, for the Budgetary General Fund, the ratio of permanent State positions to the total annually updated resident population may not exceed the ratio of permanent State positions in the fiscal year ended June 30, 1981, compared to the total resident population of the State as determined by the 1980 decennial census. The following computation uses information furnished by the Budget Division of the State Budget and Control Board.

1980-1981	State Population	3,191,996
1980-1981	State Employees (Full-Time Annual Equivalents) — Budgetary General Fund	38,184
1980-1981	Ratio of State Employees (Full-Time Annual Equivalents) to Total State Population — Budgetary General Fund	1.1962%
1985-1986	Estimated Population	3,417,610
1985-1986	State Employee Limitation (Full-Time Annual Equivalents) — Budgetary General Fund Estimated Population × 1.1962%	40,881
1985-1986	Authorized State Employees (Full-Time Equivalents) — Budgetary General Fund	37,460
1985-1986	Allowable Margin	3,421

NOTE 4: NEGATIVE UNRESERVED FUND BALANCE — GENERAL FUND

In the General Fund, the Unreserved Fund Balance was negative because the year-end transfer from the General Fund Reserve to the Unreserved Fund Balance excluded $6.086 million. This amount represents supplemental appropriations for the fiscal year ended June 30, 1986, carried forward to the fiscal year ending June 30, 1987. The Supplemental Appropriation Act for the fiscal year ended June 30, 1986, required that this amount be funded by sales tax revenue during the fiscal year ended June 30, 1987.

NOTE 5: APPROPRIATION ACTIVITY — BUDGETARY GENERAL FUND

The following schedule (expressed in thousands) reconciles appropriations for the fiscal year ended June 30, 1986, for the Budgetary General Fund from the Appropriation Act to year-end adjusted appropriations:

Appropriations — Appropriation Act		$2,600,174
Open-Ended Appropriations:		
Aid to Subdivisions	$3,804	
National Guard	5	
Other	3	
Total Open-Ended Appropriations		3,812
Mid-Year Appropriation Reductions		(60,257)
Supplemental Appropriations		18,656
New Appropriations in 1985-1986		2,562,385
Appropriations Brought Forward from 1984-1985		72,436
Adjusted Year-End 1985-1986 Appropriations		$2,634,821

Adjusted year-end 1985-1986 appropriations were expended, carried forward, or lapsed as follows (expressed in thousands):

Appropriations Expended	$2,592,269
Appropriations Carried Forward to 1986-1987	20,959
Lapsed Appropriations	21,593
Adjusted Year-End 1985-1986 Appropriations	$2,634,821

NOTE 6: RETIREMENT PLANS

As of June 30, 1986, the State maintained four jointly contributory defined-benefit retirement systems. Except where otherwise stated, information pertains only to retirement benefits; that is, pre-retirement death (group life) benefits and accidental death benefits are excluded. These systems and their funding policies are:

1. The South Carolina Retirement System (SCRS), a multiple-employer system, was established on July 1, 1945, for the benefit of teachers and employees of the State and its political subdivisions. Section 9-1-1020, South Carolina Code of Laws, requires the following employee contribution rates as percentages of gross compensation:

	Compensation	
	Up to $4,800	Over $4,800
Class I members	3%	5%
Class II members	4%	6%

All eligible State employees are Class II members. Sections 9-1-1050 through 9-1-1090, Code of Laws, require that employer contributions include a normal contribution to cover the liability related to service currently rendered and an accrued liability contribution related to liabilities for past service not covered by present assets. These sections also require that the State fix employer contributions based on the system's liabilities as shown by actuarial valuation.

2. The South Carolina Police Officers' Retirement System (PORS), a multiple-employer system, was established on July 1, 1962, for the benefit of police officers and fire fighters employed by the State or its political subdivisions. Section 9-11-210, Code of Laws, requires the following employee contributions:

   Class I members: $16/month.
   Class II members: 5% of compensation.

   Substantially all eligible State employees are Class II members. Section 9-11-220, Code of Laws, states that employer contribution rates must be determined on the basis of annual actuarial valuations.

3. The Retirement System for Members of the General Assembly of the State of South Carolina (GARS), a single-employer system, was established on January 1, 1966, for the benefit of members of the General Assembly. Section 9-9-120, Code of Laws, establishes the employee contribution rate at 10% of earnable compensation, and Section 9-9-130 states that the employer contribution is to be based on periodic actuarial valuations.

4. The Retirement System for Judges and Solicitors of the State of South Carolina (JSRS), a single-employer system, was established on July 1, 1979, for the benefit of the judges of the State's Supreme Court, Court of Appeals, circuit courts, family courts, and the State's circuit solicitors. Section 9-8-130, Code of Laws, establishes the employee contribution rate at 7% of compensation. Section 9-8-140 states that employer contributions are to be based on periodic actuarial valuations.

As indicated above, employer contributions for all four systems are determined by periodic actuarial valuations prepared by a consulting actuary. The State's actual contributions for the year ended June 30, 1986, were made at the rates or in the amounts recommended by the applicable actuarial valuations. The recommended rates/amounts for the year ended June 30, 1986, were:

1. SCRS Class II State employee members: 7.0% of earnable compensation (recommended in the June 30, 1985, valuation).
2. SCRS Class II non-State employee members: 6.15% of earnable compensation (recommended in the June 30, 1985, valuation).
3. PORS Class I members: 7.8% of earnable compensation (recommended in the June 30, 1985, valuation).
4. PORS Class II members: 10.3% of earnable compensation (recommended in the June 30, 1985, valuation).
5. GARS $1.334 million including group life benefit contribution (recommended in the June 30, 1984, valuation).
6. JSRS 40.85% of earnable compensation including group life benefit contribution (recommended in the June 30, 1984, valuation).

The State made employer contributions to the plans totaling $96.313 million during the fiscal year ended June 30, 1986. The amounts (expressed in thousands) contributed to each plan were:

SCRS	PORS	GARS	JSRS
$82,803	$9,252	$1,334	$2,924

The GARS and JSRS contribution amounts include group life contributions.

The actuary provided the following information (expressed in thousands) in the June 30, 1985, valuations for inclusion in the State's financial statements in conformity with authoritative accounting pronouncements:

	SCRS	PORS	GARS	JSRS
Actuarial Present Value of Accrued Benefits				
Vested Benefits				
Participants Currently Receiving Payments	$ 985,744	$ 94,160	$ 8,179	$18,852
Other Participants	777,070	75,059	5,449	5,299
Total Vested Benefits	1,762,814	169,219	13,628	24,151
Nonvested Benefits	242,677	9,191	1,202	8,359
Totals	$2,005,491	$178,410	$14,830	$32,510

According to the valuation, the numbers of retirees and beneficiaries of deceased employees currently receiving benefits and terminated employees entitled to benefits but not yet receiving them were:

SCRS	PORS	GARS	JSRS
30,977	1,912	108	49

The numbers of fully vested, partially vested and nonvested active employees covered by the plans were:

SCRS	PORS	GARS	JSRS
145,795	10,335	200	105

The actuarial present value of vested and nonvested accrued benefits is based on an interest rate of 9.5%. This rate represents the estimated constant equivalent rate of return for the periods during which payment of these benefits will be deferred based on the interest rates in use as of the valuation date to calculate the Pension Benefit Guaranty Corporation's annuity values for terminating plans covered by the Employee Retirement Income Security Act of 1974.

For purposes of the actuarial valuations prepared as of June 30, 1985, assets of the systems (expressed in thousands), excluding assets of the Group Life and Accidental Death Funds were:

SCRS	PORS	GARS	JSRS
$3,576,867	$290,294	$11,729	$12,233

According to information supplied by the Retirement Systems, investments at June 30, 1986, at adjusted amortized cost, including investments of the Group Life and Accidental Death Funds (expressed in thousands), were:

	SCRS	PORS	GARS	JSRS
Short-Term Investments				
Repurchase Agreements	$ 119,675	$ 18,235	$ 465	$ 1,120
Treasury Bills	147,749	16,028	975	415
Discount Notes	134,971	9,686		
U.S. Government Agencies and U.S. Government Insured				
Treasury Notes	247,078	40,068	2,390	
Treasury Bonds	904,765	76,253	2,795	2,194
Zero Coupon Treasury Bonds	647,620	45,119	938	2,730
U.S. Government Agencies	678,951	55,568	2,454	5,651
Insured Merchant Marine Bonds	154,678	11,416	534	483
State of South Carolina Institutions	1,668			
Corporate Bonds:				
Industrials	229,160	21,060	463	
Utilities	580,634	41,219	1,604	
Rails				3,649
Financial and Other	127,929	6,702	200	
Unamortized Deferred Yield Adjustments	222,478	12,687	769	31
Total Investments	$4,197,356	$354,041	$13,587	$16,273

Additional information about the plans from the June 30, 1985, actuarial valuations includes:

	SCRS	PORS	GARS	JSRS
Unfunded Accrued Liability (Expressed in Thousands)	$210,043	$25,574	$9,783	$31,964
Accrued Liability Liquidation Period (Years)	4	4	21	30
Valuation Interest Rate (Compounded Annually)	7%	7%	7%	7%

Beginning with the June 30, 1986, valuation of the South Carolina Retirement System, the liabilities for cost-of-living increases for retirees and active members eligible for service retirement will be included in the valuation results. The esti-

mated effect of these changes will be to increase the funding period to about 19 years.

The actuarial cost method used for SCRS and PORS is the projected benefit method with level percentage entry age normal cost and open-end unfunded accrued liability. The method used for GARS and JSRS is the projected benefit method with entry age normal cost and open-end unfunded accrued liability. These cost methods are specifically recognized as acceptable by the Employee Retirement Income Security Act of 1974. Gains and losses in SCRS and PORS are reflected in the period remaining to liquidate the unfunded accrued liability. Gains and losses in GARS and JSRS are reflected in the unfunded accrued liability.

NOTE 7: POSTRETIREMENT HEALTH CARE BENEFITS

In addition to providing pension benefits, the State's current policy is to provide retired employees with health care benefits under the State Health Insurance Fund (see also Note 1s, Self-Insurance Funds). If this policy remains in effect, substantially all State employees who reach normal retirement age while working for the State will become eligible for those benefits. During the fiscal year ended June 30, 1986, the State's General Fund paid $17.1 million to the State Health Insurance Fund for retiree health insurance.

NOTE 8: GENERAL OBLIGATIONS

The information provided here pertains only to general obligations — that is, obligations backed by the full faith, credit, and taxing power of the State. All information in this note is based on information supplied by the State Treasurer's Office.

General obligation bonds and notes outstanding and bonds authorized but unissued at June 30, 1986 (expressed in thousands), were:

Purpose	Interest Rates	Outstanding	Authorized But Unissued
School	3.50% to 9.10%	$ 20,250	
Highway	3.50% to 6.00%	24,000	
State Institution	4.00% to 7.00%	28,270	
Capital Improvement	3.50% to 11.00%	585,995	$255,482
Totals		$658,515	$255,482

In addition, the State has a liability of $14.955 million as of June 30, 1986, to the United States of America for construction of the Trotters Shoals Lake Project.

The amount of Capital Improvement Bonds outstanding as shown above ($585,995 million) does not include $50 million in Capital Improvement Bonds in the hands of the public at June 30, 1986, but defeased by the State Budget and Control Board during the fiscal year ended June 30, 1986, and before. Likewise, the amount of State Institution Bonds and Notes outstanding as shown above does not include $4.882 million in the hands of the public at June 30, 1986, but defeased by the State Budget and Control Board during the fiscal year ended June 30, 1986, and before. Whenever the State has legally defeased general obligation debt, it has established an irrevocable defeasance trust account with the State Treasurer or a designated financial institution as escrow holder. Each defeasance trust account is funded so as to provide cash flows that approximately coincide, as to timing and amount, with the scheduled interest and principal payments on the debt being extinguished.

Before November 30, 1977, State law allowed the State to pledge its full faith and credit for the payment of bonds only if it pledged specific revenue sources, ascertained to be sufficient to pay both the principal and interest on such bonds. The following schedule shows principal amounts (expressed in thousands) outstanding at June 30, 1986, the debt service for which is to be paid from specific pledged revenues:

Type of Bond	Type of Revenue Pledged	Principal Secured by Pledged Revenue
School	Retail Sales Tax	$ 5,250
Highway	State Gasoline Tax	24,000
State Institution	Tuition	6,675
Capital Improvement	State Income Tax	83,250
Total		$119,175

All other general obligation bonds and notes outstanding are secured by unspecified General Fund revenues.

At June 30, 1986, future debt service requirements (expressed in thousands) for general obligation bonds and notes were:

Year Ending June 30	Principal	Interest	Total
1987	$ 69,875	$ 44,864	$114,739
1988	62,755	41,932	104,687
1989	57,855	37,670	95,525
1990	57,865	33,488	91,353
1991	55,970	29,291	85,261
Thereafter	354,195	118,527	472,722
Totals	$658,515	$305,772	$964,287

Changes in general obligation bonds and notes outstanding (expressed in thousands) for the year ended June 30, 1986, were:

	Outstanding June 30, 1985 as Previously Reported	Activity During 1985-1986 Reclassified	Issued	Retired	Outstanding June 30, 1986
General Long-Term Debt Account Group					
School	$ 31,650			$ 11,400	$ 20,250
Highway	31,500			7,500	24,000
State Institution	31,620	$(31,620)			
Ports Authority	125			125	
Capital Improvement	531,750		$144,745	90,500	585,995
Totals	626,645	(31,620)	144,745	109,525	630,245
Higher Education Fund					
State Institution		31,620	7,500	10,850	28,270
Totals — Memorandum Only	$626,645	$ 0	$152,245	$120,375	$658,515

The State's legal debt margin at June 30, 1986, was $126 million for highway bonds and $31.73 million for institution bonds. The legal debt service margin at June 30, 1986, for other general obligation debt, excluding tax and bond anticipation notes, was $24,579 million.

NOTE 9: REVENUE BONDS AND NOTES

This note pertains to bonds and notes not backed by the full faith, credit, and taxing power of the State. The State Treasurer's Office provided most of the data. We extracted some data from the South Carolina Public Service Authority's Fiscal Year 1985-1986 Annual Report.

Revenue bonds and notes outstanding (expressed in thousands) at June 30, 1986, were:

Purpose	Interest Rates	Outstanding
Student and Faculty Housing Bonds	3.0% to 10.4%	$ 54,829
Stadium Improvement Bonds and Notes	5.15% to 8.5%	16,740
Library Bonds	3.0% to 6.0%	490
Plant Improvement Bonds	3.0% to 10.0%	6,423
Student Facilities Bonds	5.5% to 7.0%	2,750
Facilities Improvement Bonds	5.0% to 9.25%	4,100
State Ports Authority Bonds	3.5% to 10.88%	11,255
Parking Facilities Bonds	8.9% to 10.5%	950
Medical University Hospital Facilities Bonds	5.74% to 9.0%	67,225
Education Assistance Authority Bonds	5.3% to 12.0%	103,410
State Housing Authority Bonds	5.25% to 13.25%	716,500
Educational Facilities Bonds	8.0% to 9.0%	3,046
Patriots Point Development Authority Bonds	7.05% to 8.0%	204
Forestry Commission Notes	8.6%	800
College of Charleston Bonds	6.84%	4,250
Public Service Authority Priority Obligations	2.7% to 5.0%	62,385
Electric System Expansion Revenue Bonds	4.4% to 11.75%	1,740,845
Electric Revenue Bonds	6.0% to 8.7%	135,000
Total Revenue Bonds Outstanding		2,931,202
Less		
Bonds Excluded from Financial Statements		
State Housing Authority Bonds		716,500
Educational Facilities Bonds		3,046
Patriots Point Development Authority Bonds		204
Forestry Commission Notes		800
Public Service Authority Unamortized Debt Discount and Premium (Net)		18,387
Total Revenue Bonds Payable and Priority Obligations Per Financial Statements		$2,192,265

At June 30, 1986, there was no revenue debt authorized but unissued, and no assets had been pledged as collateral for any of this debt. The amounts outstanding as shown above do not include:

1. $4,265 million of Student and Faculty Housing Bonds refunded and defeased with proceeds from refunding issues as of December 23, 1982.
2. $277,000 of Student and Faculty Housing Bonds refunded and defeased with temporary funding as of August 23, 1982.
3. $1,495 million of Student and Faculty Housing Bonds defeased with housing revenues as of August 25, 1983.
4. $2,250 million of Plant Improvement Bonds defeased with special student fees as of September 1, 1982.
5. $9,025 million of Stadium Improvement Bonds refunded and defeased with the proceeds of a refunding bond issue as of June 21, 1985.
6. $27 million of Hospital Facility Bonds refunded and defeased with the proceeds of a refunding bond issue as of July 1, 1985.

Whenever the State has legally defeased revenue debt, it has established an irrevocable defeasance trust account with the State Treasurer or a designated financial institution as escrow holder. In all cases, the defeasance trust funds are irrevocable trusts funded with monetary assets sufficient to provide cash flows that approximately coincide, as to timing and amount, with the scheduled interest and principal payments on the debt being extinguished.

The Public Service Authority refunds and defeases debt primarily as a means of reducing debt service, thereby postponing or reducing future electric rate adjustments. Although advance refundings have resulted in an original book loss of $164 million (unamortized loss of $155 million), debt service reductions will total $454 million over the refunding period. Refunded bonds of the Authority are retired as they mature, or at the earliest callable date, from the proceeds of government obligations held by the Refunding Trustee. At June 30, 1986, $842.32 million of Public Service Authority refunded debt was outstanding.

The agencies and institutions receiving the proceeds of bonds and notes have pledged revenues for repayment as follows:

Type of Bond or Note	Type(s) of Revenue Pledged
Student and Faculty Housing Bonds	Housing Revenue, Federal Loan Subsidies
Stadium Improvement Bonds and Notes	Student Fees, Admission Fees
Library Bonds	Library Fees
Plant Improvement Bonds	Plant Improvement Fees, Federal Loan Subsidies
Student Facilities Bonds	Special Fees, Federal Loan Subsidies
Facilities Improvement Bonds	Student Fees, Federal Loan Subsidies
State Ports Authority Bonds	Port Revenue, Net Revenue
Parking Facilities Bonds	Parking Fees
Medical University Hospital Facilities Bonds	Hospital Revenue
Education Assistance Authority Bonds	Loan Repayments, U.S. Commissioner of Education
State Housing Authority Bonds	State Housing Authority Revenue
Educational Facilities Bonds	Rental Fees
Patriots Point Development Authority Bonds and Notes	Rental Fees
Forestry Commission Notes	Sale of Timber
College of Charleston Bonds	Sale of Property
Public Service Authority Bonds and Notes	Public Service Authority Revenues

At June 30, 1986, future debt service requirements (expressed in thousands) for revenue bonds and notes were:

Year Ending June 30	Principal	Interest	Total
1987	$ 67,887	$ 229,717	$ 297,604
1988	57,800	224,162	281,962
1989	88,645	219,206	307,851
1990	57,074	214,360	271,434
1991	57,060	210,417	267,477
Thereafter	2,602,736	3,744,579	6,347,315
Totals	$2,931,202	$4,842,441	$7,773,643

Changes in revenue bonds and notes outstanding (expressed in thousands) for the year ended June 30, 1986, are:

Outstanding at June 30, 1985	$2,743,173
State Housing Authority multifamily bonds included at June 30, 1985, that are not liabilities of the Authority or the State	(16,100)
Issued During 1985-1986	445,370
Retired During 1985-1986	(241,241)
Outstanding at June 30, 1986	$2,931,202

Since July 1, 1986, the State (excluding the South Carolina Public Service Authority) has issued the following revenue bonds (expressed in thousands):

Purpose	Issued	Interest	Maturity	Principal
Medical University Hospital Facilities	07/08/86	5.74%	06/01/1991	$2,500
Clarks Hill-Russell Authority	07/10/86	4.95%	07/09/1987	1,470
Citadel Special Note	09/19/86	5.95%	09/19/1989	1,700
Tri-County Technical Education Bond Anticipation Notes	10/01/86	4.46%	10/01/1987	800
Total				$6,470

NOTE 10: GENERAL FUND RESERVE

Article III, Section 36, of the South Carolina Constitution establishes requirements relating to the General Fund Reserve, a reserve primarily designed to prevent Budgetary General Fund deficits. The Reserve is fully funded whenever it is equal to four percent of the Budgetary General Fund revenue of the latest completed fiscal year.

If the State withdraws funds from the Reserve to cover a

year-end deficit, it must replace the funds within three years. In each of the first two years following a withdrawal, the Constitution requires replacement of at least one percent of the Budgetary General Fund revenue of the latest completed fiscal year. In the third fiscal year following a withdrawal, the required replacement amount is two percent of the Budgetary General Fund revenue of the latest completed fiscal year. On September 15, 1983, the State Attorney General rendered an opinion that Section 11-11-310 of the South Carolina Code of Laws requires application of all Budgetary General Fund surpluses to the Reserve Fund until the Reserve reaches full funding.

A Constitutional amendment passed in 1984 changed the funding requirement to four percent (from five percent) of the Budgetary General Fund revenue of the latest completed fiscal year. It also changed the required percentages for replenishing the Reserve after funds are withdrawn to cover a year-end deficit. The amendment also allows the percentage to be reduced to three or increased to five percent by a special vote of the General Assembly. The full funding amount (expressed in thousands) for the fiscal year ended June 30, 1987, therefore, will be one of the following depending on the percentage in effect:

3% — $ 75,279
4% — 100,372
5% — 125,464

Key amounts (expressed in thousands) for the Reserve Fund for the last five fiscal years are:

Fiscal Year Ended June 30	Start-of-Year Balance	Deposits (Withdrawals)	End-of-Year Balance	Full-Funding Amount	Actual End-of-Year % Funded[2]
1982	$76,498	$(55,369)	$21,129	$85,461[1]	25%
1983	21,129	18,883	40,012	90,208[1]	44%
1984	40,012	58,485	98,497	98,497[3]	100%
1985	98,497	(9,369)	89,128	89,128[1]	100%
1986	89,128	(37,353)	51,775	95,735[1]	54%

[1] Equals 5% of the Budgetary General Fund revenues for the latest completed fiscal year.
[2] Equals (End-of-Year Balance/Full Funding Amount) x 100.
[3] Equals 4% of the Budgetary General Fund revenues for the latest completed fiscal year.

Section 11-11-310 of the South Carolina Code of Laws establishes a Capital Expenditure Reserve. Its purpose is to allow the State to accelerate the retirement of bonded indebtedness and/or to avoid issuing bonds for authorized projects. The Capital Expenditure Reserve is separate and distinct from the General Fund Reserve. The funding requirements for the Capital Expenditure Reserve for the fiscal year ended June 30, 1986, and future years are:

Fiscal Year Ended June 30	Funding Requirement — Percentage of the Year's Budgetary General Fund Revenue Estimate
1986	0.5%
1987	1.0%
1988	1.5%
1989	2.0%
1990	2.5%
Thereafter	2.5%

Accordingly, $12.7 million was transferred to the Capital Expenditure Reserve in the fiscal year ended June 30, 1986. This amount was later transferred to the Capital Projects Fund in accordance with the Capital Expenditure Appropriation Act.

State law requires the Budget and Control Board to take action whenever expenditures against current-year appropriations (excluding appropriations brought forward from the prior year) are expected to exceed revenues in the Budgetary General Fund. The Appropriation Act for the fiscal year ending June 30, 1987, amends Section 11-11-310 to require the Board to reduce the current year's funding of the Capital Expenditure Reserve prior to mandating any cuts in State agency operating appropriations. This amendment is effective for the fiscal year ended June 30, 1987, and thereafter.

The Reserve for Appropriations to be Carried Forward funds specific appropriation act provisos that authorize Budgetary General Fund appropriations to be carried forward and expended in the next fiscal year. Appropriations brought forward from the fiscal year ended June 30, 1985, into the fiscal year ended June 30, 1986, totaled $72.4 million. Appropriations authorized to be carried forward from the fiscal year ended June 30, 1986, into the fiscal year ended June 30, 1987, totaled $21.0 million.

Outside parties may restrict certain Higher Education Fund fund balances to specific future uses. Other fund balances of the Higher Education Fund are not available to be appropriated. We report these restricted fund balances as reserves.

Designations of unreserved fund balances reflect tentative plans for future use of available financial resources. The designation for debt service represents financial resources being accumulated to meet principal and interest payments maturing in future years. The designation for quasi-endowments reflects the financial resources intended for future use by the State's colleges and universities.

During the fiscal year ended June 30, 1986, the State contributed $785,915 in Capital Improvement Bond proceeds to the Ports Authority for improvement and expansion of the Authority's facilities. The Ports Authority, an Enterprise Fund, is not required to repay these funds. Our financial statements show this transaction as a Residual Equity Transfer Out in the Capital Projects Fund and an addition to Contributed Capital in the Enterprise Funds. Changes in Contributed Capital (expressed in thousands) during the fiscal year ended June 30, 1986, were:

Balance — July 1, 1985	$175,198
Residual equity transfer	786
Balance — June 30, 1986	$175,984

The negative "Other" revenue figure in the Capital Projects Fund resulted from recording operating transfers out as negative revenues (see also Note 1q, Operating Transfers). The negative "Savings and Loan Association Tax" in the Budgetary General Fund resulted because refunds exceeded collections. Refunds were recorded as negative revenues.

All enterprise segments except the Other Enterprise Funds Segment use the accrual basis of accounting. The Other Enterprise Funds Segment, which is immaterial to the Enterprise Funds as a whole, uses the legal basis of accounting (see Note 1d) for reporting purposes. Therefore, we cannot provide certain required information for the Other Enterprise Fund Segment. Available financial information (expressed in thousands) by enterprise fund segment for the fiscal year ended June 30, 1986, was:

	Public Service Authority	Ports Authority	Education Assistance Authority	Public Railways Commission	Research Authority	Other	Totals
Operating Revenues	$ 487,292	$ 33,180	$ 6,276	$2,067	$ 461	$17,164	$ 546,440
Depreciation/Amortization Expense	67,273	7,561	25	102	10	*	74,971
Operating Income (Loss)	4,190	(692)	(3,751)	(123)	32	1,274	930
Net Income (Loss)	28,205	(673)	3,152	331	32	1,274	32,321
Current Capital Contributions		586		200			786
Property, Plant and Equipment Additions	35,857	14,211	131	64	1	*	50,264
Property, Plant and Equipment Deletions		492		1		*	493
Net Working Capital	50,545	5,851	742	2,907	1,316	3,016	64,377
Bonds and Other Long-Term Liabilities Payable from Operating Revenues	2,091,866	10,786	108,163	1,964		*	2,212,779
Bonds and Other Long-Term Liabilities Payable from Other Sources						*	0
Total Fund Equity	388,188	168,837	21,073	5,930	4,169	3,016	591,213

* Budgetary-basis accounting — data unavailable.

Public Service Authority — The Public Service Authority is a State-owned public utility corporation. It sells electric power to retail customers, industries, military installations, and to electric cooperatives and municipal power departments for resale to their customers.

Ports Authority — The State Ports Authority is an instrumentality of the State. Its purpose is to develop and improve the harbors and seaports of Beaufort, Charleston, and Georgetown for the handling of commerce through these ports. The Authority generates revenues by collecting fees for handling and storage, wharfage, dockage, and equipment/facility rentals.

Education Assistance Authority — the Education Assistance Authority is a public instrumentality of the State. Its purpose is to financially assist eligible resident post-secondary school students. The Authority generates revenues by charging interest on funds it lends to students. The South Carolina Student Loan Corporation administers all loan programs of the Education Assistance Authority. The Education Assistance Authority segment includes both the Education Assistance Authority and the Student Loan Corporation.

Public Railways Commission — The Public Railways Commission is a political subdivision of the State. Its purpose is to operate, maintain, and control rail tracks and equipment in the State's ports. It generates revenues by charging for rail

services.

Research Authority — The South Carolina Research Authority is a public corporation. Its purpose is to enhance the research capabilities of the State's public and private universities and to promote the development of high technology industries and research facilities in the State. The Authority generates revenues by collecting private contributions and by selling its real estate.

Other — The Other Enterprise Funds Segment includes various enterprise activities within central State government. This segment generates revenue by selling goods and services.

a. Litigation

The State is involved in legal proceedings pertaining to matters incidental to the performance of routine governmental operations. It is probable that the State will expend approximately $300 million dollars as a result of injunctions pending or anticipated that will result in unfavorable judgments. These judgments will be paid over several fiscal years. The State has not recorded a liability for these pending or anticipated judgments.

It is also possible that the State will have to expend an additional $150 million dollars in response to certain other injunctive actions pending before the courts or administrative agencies.

b. Student Loan Guarantees

The South Carolina Student Loan Corporation, a non-profit entity, acts as an agent for the South Carolina State Education Assistance Authority (SEAA) when making loans to eligible students. The SEAA, an Enterprise Fund, guarantees loans made by the Student Loan Corporation. At June 30, 1986, loans guaranteed by the SEAA totaled $27.9 million. The United States Department of Education (DOE) ordinarily reinsures losses under these guarantees up to 100%. If the loan default rate exceeds 5% of the total loans in repayment status, however, the DOE decreases the reinsurance rate to 90%. If the default rate exceeds 10%, the reinsurance rate decreases to 80%. The Student Loan Corporation's default rate as of June 30, 1986, was approximately 1.7%. The probability that the SEAA would incur a loss on its guarantees, therefore, is remote.

c. Federal Grants

The State receives significant financial assistance from the Federal government in the form of grants and entitlements. Federal funds that the State disburses are subject to audit by the Federal grantor agency or its designee. Such audits could lead to a request for reimbursement to the grantor agency for expenditures not allowed under the terms of the Federal program. Based on analysis of historical data relating to such reimbursements, we believe that any required reimbursements relating to the fiscal year ended June 30, 1986, will not be material.

In our report for the fiscal year ended June 30, 1985, we presented revenues in the combined budget and actual statements for Earmarked, Restricted, and Federal funds using the same categories used in the Combined Statement of Revenues Collected, Expenditures Paid, and Changes in Fund Balances — All Governmental Fund Types. Beginning with this year's report, however, we present revenues for all budgeted funds by the revenue categories shown in the current year's Appropriation Act. Also, we combined the Earmarked, Restricted, and Federal funds into a single column, "Other Budgeted Funds," on the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances — Budget and Actual (Budgetary Basis) — All Budgeted Funds to more accurately reflect the fund structure shown in the Appropriation Act.

During the fiscal year ended June 30, 1986, the Comptroller General's Office completed a review of budgetary classifications and determined that adjustments were needed to include all budgeted activity and to exclude all unbudgeted activity in the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances — Budget and Actual (Budgetary Basis) — All Budgeted Funds. We made adjustments to:

1. Include budgeted activity for colleges (including technical colleges) and universities;
2. Include budgeted trust activity previously unreported; and
3. Exclude unbudgeted activity previously reported as budgeted.

We show these adjustments on the schedule below in the Budgetary Adjustments column.

As discussed in Note 1b, Reporting Entity, we included the South Carolina Ports Authority, Public Service Authority, Public Railways Commission, Education Assistance Authority, and Research Authority for the first time this year in the State reporting entity. On the schedule below, we show the corresponding amounts in the Reporting Entity Adjustments column.

In our report for the fiscal year ended June 30, 1985, we aggregated Unexpended Plant, Renewal and Replacement, Retirement of Indebtedness, and Investment in Plant Funds for the Higher Education Fund and presented them in one column titled Plant Funds. Beginning with this year's report, we show these funds in separate columns in accordance with the format illustrated in "Audits of Colleges and Universities" published by the American Institute of Certified Public Accountants.

In our report for the fiscal year ended June 30, 1985, we excluded one State-supported college from the Higher Education Fund totals. This college is included in this year's report. We show the effect of this change in the Higher Education Adjustments column on the schedule below. That column also includes changes to June 30, 1985, Higher Education fund balances for audit adjustments made after we printed our report for the fiscal year ended June 30, 1985.

The effects of these reporting and accounting changes on beginning fund balances and retained earnings (expressed in thousands) were:

Fund Type	June 30, 1985 Equity per 1984-1985 Report	Adjustments: Higher Education	Adjustments: Reporting Entity	Adjustments: Total	July 1, 1985 Equity per 1985-1986 Report
General	$ 149,629			$ 0	$ 149,629
Special Revenue	230,828			0	230,828
Debt Service	64,860			0	64,860
Capital Projects	89,557			0	89,557
Enterprise	1,742		$381,166	381,166	382,908
Internal Service	3,796			0	3,796
Subtotal	540,412	$ 0	381,166	381,166	921,578
Higher Education:					
Current:					
Unrestricted	40,819	(9,284)		(9,284)	31,535
Restricted	13,731	(692)		(692)	13,039
Loan	26,994	1,633		1,633	28,627
Endowment and Similar	13,931	98		98	14,029
Plant Funds:					
Unexpended	84,324	(1,751)		(1,751)	82,573
Renewal and Replacement	1,799	(1,053)		(1,053)	746
Retirement of Indebtedness	27,061	2,355		2,355	29,416
Investment in Plant	866,647	59,850		59,850	926,497
Subtotal	1,075,306	51,156	0	51,156	1,126,462
Totals — Memorandum Only	$1,615,718	$51,156	$381,166	$432,322	$2,048,040

Budgetary Fund	June 30, 1985 Equity per 1984-1985 Report	Adjustments: Reclassification	Adjustments: Budgetary	Adjustments: Total	July 1, 1985 Equity per 1985-1986 Report
Budgetary General Fund	$149,629				$149,629
Other Budgeted Funds		$ 390,783	$(113,320)	$ 277,463	277,463
Earmarked Funds	282,423	(282,423)		(282,423)	
Restricted Funds	84,932	(84,932)		(84,932)	
Federal Funds	23,428	(23,428)		(23,428)	
Totals — Memorandum Only	$540,412	$ 0	$(113,320)	$(113,320)	$427,092

Prior to the current fiscal year, the basis of accounting for statewide reporting purposes for Enterprise Funds was the same as for Governmental Funds. Beginning with our report for the fiscal year ended June 30, 1986, we present the Enterprise Funds using the accrual basis of accounting as required by Generally Accepted Accounting Principles.

Beginning with our report for the fiscal year ended June 30, 1986, we have also included certain specific non-cash revenue and expenditure activities in the Special Revenue Funds. Revenues and expenditures are equal for these activities. Beginning fund balance, therefore, is not affected by this accounting change. The newly reported non-cash activities are:

1. Receipts and disbursements of Federal Food Coupons;
2. Medicaid, Social Service Block Grant, and Community Long-Term Care certified public expenditures (matching funds); and
3. Local municipality and county health centers' certified public expenditures (matching funds).

NOTE 20: RECONCILIATION OF EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND USES

The accompanying Combined Statement of Revenues, Expenditures, and Changes in Fund Balances — Budget and

Actual (Budgetary Basis) — All Budgeted Funds presents comparisons of the legally adopted budget with actual data on a budgetary basis. Accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements under the basis of accounting described in Note 1d. Therefore, we present below a reconciliation of resultant basis, perspective, and entity differences in the excess (deficiency) of revenues and other sources of financial resources over expenditures and other uses of financial resources for the year ended June 30, 1986 (expressed in thousands):

Budgetary Fund Classification:	Budgetary General Fund	Other Budgeted Funds					
Financial Statement Fund Classification:	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Higher Education
Excess of revenues and other sources of financial resources over expenditures and other uses of financial resources (budgetary basis)	$(82,981)	$73,636					
Adjustments:							
To adjust revenues and expenditures for exclusion of technical colleges		(4,057)					
To adjust expenditures for residual equity transfers		786					
Excess of revenues and other sources of financial resources over expenditures and other uses of financial resources (basis as described in Note 1d) budgetary classification	(82,981)	70,365					
Reclassification and other adjustments:							
To reclassify excess of revenues and other sources of financial resources over expenditures and other uses of financial resources into financial statement fund types		(14,740)		$10,453	$ 1,274	$(519)	$ 3,532
To record excess (deficiency) of revenues and other sources of financial resources over expenditures and other uses of financial resources for unbudgeted funds		6	$15,777	22,177	31,047		107,785
Excess (deficiency) of revenues and other sources of financial resources over expenditures and other uses of financial resources (basis as described in Note 1d)	$(82,981)	$55,631	$15,777	$32,630	$32,321	$(519)	$111,317

SUPPORTING SCHEDULES

STATE OF SOUTH CAROLINA

Schedule of Budgetary General Fund Appropriation Activity

For Fiscal Year Ended June 30, 1986

(Expressed in Thousands)

Function	Original Appropriations	Adjustments	Adjusted Appropriations	Expenditures	Appropriations To Be Carried Forward	Lapsed Appropriations
Legislative	$ 23,386	$ 2,202	$ 25,588	$ 22,019	$ 2,920	$ 649
Judicial	20,865	431	21,296	20,925	43	328
Executive and Administrative	163,716	(39,824)	123,892	117,922	1,879	4,091
Educational	1,413,524	14,201	1,427,725	1,420,110	5,282	1,833
Health	336,842	24,122	360,964	354,438	3,469	3,057
Social Rehabilitation Services	95,795	2,011	97,806	92,676	1,722	5,408
Correctional	131,342	2,867	134,799	132,389	300	2,110
Conservation, Natural Resources and Development	89,974	13,016	102,990	99,465	3,031	494
Regulatory	49,241	3,611	52,852	50,346	1,481	976
Transportation	3,126	414	3,540	2,577	717	246
Debt Service	109,378		109,378	106,738		2,640
Miscellaneous	161,785	10,449	172,234	172,115	119	
Highway Department	600	1,161	1,761			1,761
Totals	$2,600,174	$34,647	$2,634,821	$2,592,269	$20,956	$21,593

STATE OF SOUTH CAROLINA

Schedule of Budgetary General Fund Revenues and Expenditures Earmarked for Public Education

For The Fiscal Year Ended June 30, 1986

(Expressed in Thousands)

Revenues:	
Retail Sales Tax	$ 885,593
Alcoholic Liquors Tax — State Portion	20,657
Beer and Wine Tax — State Portion	219
Soft Drinks Tax	18,029
Commercial Nuclear Waste Tax	4,654
Total Revenues Earmarked for Public Education	929,152
Expenditures:	
Department of Education	896,888
State Board of Technical and Comprehensive Education	90,545
Educational Television Commission	15,393
Wil Lou Gray Opportunity School	2,352
School for the Deaf and Blind	8,879
John De La Howe School	2,227
Debt Service — School Bonds	12,857
Total Expenditures Earmarked for Public Education	1,029,141
Excess of Expenditures Over Revenues Earmarked for Public Education	$ 99,989

Section 1 of the 1985-1986 Appropriation Act, Section 12-21-1130, and Section 48-47-175 of The South Carolina Code of Laws require that the General Fund revenues shown above be expended only to cover appropriations made to support the public education agencies listed above. These legal requirements are considered satisfied if the Budgetary General Fund expenditures for the designated public education agencies exceed the earmarked revenues.

The State Treasurer's Office could not provide Debt Service expenditures on Capital Improvement Bonds and Institution Bonds applicable to the designated public education agencies. If available, those amounts would increase both expenditures and the excess of expenditures over revenues earmarked for public education. Records of the State Treasurer's Office show that Capital Improvement Bond Proceeds of $7,739 million and Institution Bond Proceeds of $35,272 were allocated to the designated public education agencies in 1985-1986.

STATE OF SOUTH CAROLINA

Schedule of Selected General Fund and Federal Fund Revenues Shared With County Governments

For The Fiscal Year Ended June 30, 1986

County	Education Finance Act	Alcoholic Liquors Tax	Alcoholic Liquors Tax Mini-Bottles	Bank Tax	Beer and Wine Tax	Flood Control	Gasoline Tax
Abbeville	$ 4,772,360	$ 48,404	$ 22,935	$ 11,908	$ 24,969		$ 131,986
Aiken	23,501,174	225,951	107,063	56,423	116,556		542,366
Allendale	2,683,700	22,886	10,844	12,300	11,806		76,408
Anderson	26,217,037	285,014	135,049	63,091	147,023	$11,129	651,988
Bamberg	4,648,498	38,760	18,366	20,597	19,994		105,503
Barnwell	5,686,480	42,500	20,138	10,618	21,924		127,517
Beaufort	5,676,716	139,829	66,255	58,831	72,130		341,328
Berkeley	26,367,096	202,638	96,016	15,882	104,530		471,681
Calhoun	1,579,721	26,112	12,373	5,381	13,470		96,547
Charleston	37,591,758	592,506	280,749	147,015	305,642		1,105,663
Cherokee	9,925,286	87,672	41,542	27,838	45,225		239,806
Chester	7,834,480	64,492	30,558	9,320	33,268		184,266
Chesterfield	9,037,400	81,635	38,681	17,552	42,111		196,330
Clarendon	7,365,438	58,748	27,837	42,616	30,305		156,371
Colleton	6,997,156	67,978	32,210	25,380	35,066		203,468
Darlington	14,376,415	134,166	63,572	50,713	69,209		313,565
Dillon	9,066,242	66,495	31,508	12,915	34,301		154,766
Dorchester	15,087,094	125,704	59,563	47,806	64,844		351,783
Edgefield	4,283,108	37,498	17,768	6,827	19,343		123,752
Fairfield	2,334,830	44,283	20,983	19,912	22,843		138,611
Florence	25,594,110	235,662	111,664	86,441	121,565		525,796
Georgetown	8,831,753	90,831	43,039	45,672	46,855		254,819
Greenville	46,996,406	615,907	291,837	250,365	317,713		1,399,714
Greenwood	11,741,455	123,748	58,636	43,334	63,835		336,945
Hampton	4,869,347	38,847	18,407	25,853	20,039		121,808
Horry	17,200,240	216,956	102,801	158,475	111,916		580,932
Jasper	3,250,735	31,027	14,702	7,904	16,005		98,189
Kershaw	9,250,804	83,458	39,545	16,776	43,051		270,538
Lancaster	13,056,130	114,151	54,088	10,937	58,884		291,207
Laurens	10,376,006	111,693	52,924	50,140	57,617		292,272
Lee	4,442,157	40,490	19,186	9,200	20,887		109,891
Lexington	36,822,887	300,247	142,267	108,570	154,881		796,768
McCormick	2,004,035	16,682	7,905	13,022	8,605	5,019	67,028
Marion	9,106,189	73,113	34,643	56,939	37,715		165,625
Marlboro	8,163,701	67,671	32,064	8,260	34,908		148,825
Newberry	7,083,878	66,836	31,669	12,282	34,477		215,942
Oconee	9,744,198	103,987	49,272	27,909	53,641	2,852	307,823
Orangeburg	18,146,658	176,005	83,397	92,886	90,791		389,729
Pickens	14,976,506	169,620	80,372	61,459	87,498		414,959
Richland	37,261,925	577,020	273,411	303,852	297,653		1,099,179
Saluda	2,792,836	34,546	16,369	6,132	17,821		124,167
Spartanburg	39,867,570	431,821	204,611	108,435	222,754		1,004,101
Sumter	21,231,803	188,767	89,444	56,662	97,375		400,349
Union	6,842,033	65,807	31,182	27,817	33,946		165,737
Williamsburg	9,626,182	81,775	38,748	37,414	42,183		199,426
York	23,450,893	228,296	108,175	124,285	117,766		545,674
County Totals	$627,762,426	$6,678,234	$3,164,368	$2,413,946	$3,444,940	$19,000	$16,041,148

Income Tax	Insurance Tax	Brokers Premium Tax	National Forest Funds	Veteran's Affairs	Voters Registration Expense	County Totals	County
$ 509,460	$ 121,868	$ 24,500	$ 84,718	$ 9,739	$ 2,500	$ 5,765,347	Abbeville
2,388,689	568,885	81,662	22,353	13,886	7,500	27,632,508	Aiken
236,989	57,622	12,810		9,739	2,535	3,137,639	Allendale
2,863,137	717,589	94,549		15,272	8,980	31,209,858	Anderson
394,210	97,589	11,576		9,739	4,016	5,368,848	Bamberg
445,143	107,004	15,459		9,739	1,435	6,487,957	Barnwell
1,403,469	352,052	136,033		11,120	5,000	8,262,763	Beaufort
1,983,505	510,188	62,119	1,037,755	11,120	6,200	30,868,730	Berkeley
264,196	65,743	10,204		9,739	2,500	2,085,986	Calhoun
5,570,031	1,491,773	320,661	319,938	23,567	14,100	47,763,403	Charleston
923,172	220,734	30,538		11,120	5,000	11,557,933	Cherokee
635,800	162,373	17,751	44,705	11,120	5,000	9,033,133	Chester
851,920	205,535	25,411		11,120	5,000	10,512,695	Chesterfield
589,198	147,913	16,247		9,739	5,500	8,449,912	Clarendon
634,122	171,150	27,459		9,739	5,500	8,209,228	Colleton
1,375,440	337,794	40,095		12,505	5,325	16,778,799	Darlington
702,888	167,417	14,815		11,120	5,000	10,267,467	Dillon
1,285,236	316,490	48,922		9,739	5,000	17,402,181	Dorchester
407,423	94,411	13,122	112,862	9,739	2,800	5,128,653	Edgefield
481,373	111,494	12,214	44,067	9,739	2,850	3,243,199	Fairfield
2,411,162	593,333	108,096		13,886	7,500	29,809,215	Florence
891,435	228,687	58,804		11,120	5,000	10,508,015	Georgetown
6,327,342	1,550,689	299,703		23,567	14,100	58,087,343	Greenville
1,286,770	311,564	48,908	37,893	11,120	5,850	14,070,058	Greenwood
416,852	97,807	14,101		9,739	2,500	5,635,300	Hampton
2,229,448	546,237	217,254		13,886	7,500	21,385,645	Horry
326,334	78,118	11,879		9,739	2,500	3,847,132	Jasper
850,464	210,125	34,753		11,120	5,000	10,815,634	Kershaw
1,167,989	287,402	32,755		11,120	5,000	15,089,663	Lancaster
1,186,201	281,214	30,216	77,850	11,120	5,000	12,532,253	Laurens
422,846	101,943	12,664		9,739	2,500	5,191,503	Lee
2,936,242	755,941	117,439		12,505	8,759	42,156,506	Lexington
178,635	42,001	4,871	182,133	9,739	2,500	2,542,175	McCormick
775,870	184,080	26,640		11,120	5,441	10,477,375	Marion
721,724	170,376	15,197		9,739	5,450	9,377,915	Marlboro
710,420	168,275	24,053	206,650	9,739	5,000	8,569,221	Newberry
1,076,764	261,811	35,444	294,204	11,120	5,000	11,974,025	Oconee
1,766,515	443,133	59,242		13,886	6,330	21,268,572	Orangeburg
1,709,042	427,059	62,733		11,120	5,024	18,005,392	Pickens
5,870,853	1,452,781	295,687		22,183	10,000	47,464,544	Richland
374,906	86,979	8,214	15,073	9,739	2,500	3,489,282	Saluda
4,413,565	1,087,211	171,097		19,419	12,810	47,543,394	Spartanburg
1,940,513	475,265	64,676		13,886	6,150	24,564,890	Sumter
701,493	165,685	17,120	217,486	11,120	5,500	8,284,926	Union
860,370	205,888	20,933		11,120	5,000	11,129,039	Williamsburg
2,380,551	574,787	106,242		13,886	7,500	27,658,055	York
$67,879,707	$16,814,015	$2,914,868	$2,697,687	$555,817	$257,155	$750,643,311	

STATISTICAL SECTION

"Painting of the Revolutionary Battle of Cowpens" — The British experienced their most devastating defeat of the Southern Campaign at the Battle of Cowpens on January 17, 1781.

STATE OF SOUTH CAROLINA

Expenditures (Budgetary Basis) — Total Budgeted Funds By Function

Last Five Fiscal Years

(Expressed in Thousands)

Function	For the Fiscal Year Ended June 30				
	1982	1983	1984	1985	1986
Legislative	$ 13,577	$ 14,125	$ 14,814	$ 20,252	$ 22,287
Judicial	14,037	14,775	16,838	18,866	20,925
Executive and Administrative	369,493	382,053	261,196	303,997	296,605
Educational	1,536,162	1,607,024	1,779,724	2,405,711	2,273,874
Health	325,914	330,174	356,914	746,494	926,329
Social Rehabilitation Services	517,168	475,125	506,527	229,246	454,579
Correctional	96,619	96,886	117,485	159,435	183,117
Conservation, Natural Resources, and Development	109,148	110,397	124,346	139,750	158,105
Regulatory	67,770	71,695	78,949	86,244	93,514
Transportation	5,584	5,032	3,695	3,832	3,447
Debt Service	89,722	105,091	101,436	103,608	106,738
Miscellaneous	119,223	113,058	124,864	163,106	172,901
Highway Department	301,989	321,817	390,333	455,467	465,181
Total Expenditures	$3,564,406	$3,647,252	$3,877,121	$4,836,008	$5,177,602

Ninety Six National Site — Ninety Six was the site of the first South Carolina land battle of the American Revolution, November 19-21, 1775.

STATE OF SOUTH CAROLINA

Revenues (Budgetary Basis) — Total Budgeted Funds By Source

Last Five Fiscal Years

(Expressed in Thousands)

Source	For the Fiscal Year Ended June 30				
	1982	1983	1984	1985	1986
Admissions Tax	$ 6,430	$ 7,403	$ 8,307	$ 8,519	$ 9,230
Aircraft Tax	246	271	152	458	539
Alcoholic Liquors Tax	39,706	43,622	43,864	43,603	46,580
Bank Tax	3,876	5,116	4,839	7,632	4,171
Beer and Wine Tax	55,020	61,458	58,729	60,027	62,488
Business License Tax	30,279	29,747	29,852	29,842	29,993
Cable Television Fees	7	7	4		
Coin Operated Device Tax	1,975	8,371	6,046	5,756	8,115
Commercial Nuclear Waste Tax			3,903	4,856	4,656
Contractors' License Tax	607	661	700	746	808
Corporation Income Tax	127,610	18,203	154,483	192,152	185,014
Corporation License Tax	17,666	124,132	21,337	25,002	24,193
Department of Agriculture	7,232	6,969	7,179	7,909	7,933
Department Supported Appropriations	11,386	68,678	75,034	89,240	99,005
Documentary Tax	10,140	11,703	16,786	16,360	16,085
Earned on Investments	65,799	62,311	71,031	83,759	79,198
Education Improvement Act — 1% Sales Tax				182,578	221,740
Education Improvement Act — Investment Earnings				1,404	2,235
Education Improvement Act — Other				300	270
Electric Power Tax	12,627	12,435	13,076	13,411	12,653
Estate Tax	12,634	14,259	17,633	22,442	19,946
Excise Tax — Casual Sales		7,186	8,764	7,738	7,728
Fertilizer Inspection Tax	213	185	189	219	191
Gasoline Tax — Counties	14,662	14,330	15,429	15,902	16,341
Gift Tax	714	980	1,121	1,496	2,316
Individual Income Tax	641,838	719,113	795,480	850,814	907,285
Insurance Tax	40,798	45,434	49,522	56,594	65,173
Miscellaneous Departmental Revenue	1,162,596	1,551,485	1,722,196	1,930,352	2,256,978
Miscellaneous Sources	687,082	75,351	107,427	215,199	152,092
Motor Transport Fees	2,690	2,678	4,462	4,868	4,552
Private Car Lines Tax	1,075	1,077	1,135	1,057	1,099
Public Service Assessment	2,490	2,528	3,022	3,060	3,317
Public Service Authority	1,400	1,500	1,600	1,700	2,900
Retail Sales Tax (4%)	646,552	684,391	790,160	820,534	885,591
Retailers' License Tax	727	1,121	1,193	3,776	923
Savings and Loan Association Tax	59	(68)	19	(12)	(835)
Soft Drinks Tax	13,868	13,841	13,192	14,970	18,029
Workers' Compensation Insurance Tax	6,274	7,472	7,377	7,961	9,725
Total Revenues	$3,626,278	$3,603,950	$4,055,243	$4,732,224	$5,168,257

STATE OF SOUTH CAROLINA

Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita

At June 30, 1986

Population[1]	3.347 million
Assessed Value[2]	$5.191 billion
General Obligation Debt	$658.515 million
Ratio of Debt to Assessed Value	12.69%
Debt per Capita	$196.75

[1] South Carolina Division of Research and Statistical Services estimates for 1985.
[2] Value of taxable property at December 31, 1984.

STATE OF SOUTH CAROLINA

Computation of Legal Debt Margin

At June 30, 1986

Section 57-11-240 of the South Carolina Code of Laws limits State highway bonds outstanding to $150 million. Likewise, Section 59-107-90 limits State institution bonds legally outstanding to $60 million. Furthermore, Section 11-11-430 states: "The issuance of general obligation bonds of the State must be limited so that the maximum annual debt service on all general obligation bonds of the State (excluding highway bonds, State institution bonds, tax anticipation notes, and bond anticipation notes) may not exceed five percent of the general revenues of the State for the fiscal year next preceding (excluding revenues which are authorized to be pledged for State highway bonds and State institution bonds)." Therefore:

(Expressed in Thousands)

State highway bond limitation	$ 150,000
Less: State highway bonds outstanding at June 30, 1986	24,000
Legal debt margin at June 30, 1986 — highway bonds	$ 126,000
State institution bond limitation	$ 60,000
Less: State institution bonds legally outstanding at June 30, 1986	28,270
Legal debt margin at June 30, 1986 — institution bonds	$ 31,730
1984-1985 General Fund revenues	$2,393,372
Less: 1984-1985 revenues pledged for highway and institution bonds	14,675
1984-1985 net General Fund revenues	2,378,697
5% of 1984-1985 net General Fund revenues	118,935
Less: 1985-1986 debt service expenditures for general obligation debt excluding highway and institution bonds, tax anticipation notes, and bond anticipation notes	94,356
Legal debt service margin at June 30, 1986 — general obligation debt excluding highway/institution bonds and tax/bond anticipation notes	$ 24,579

STATE OF SOUTH CAROLINA

Ratio of Annual Debt Service for General Obligation Bonds to Budgetary General Fund Expenditures

For the Last Eight Fiscal Years

(Expressed in Thousands)

Fiscal Year Ended June 30	Total Debt Service	Total Budgetary General Fund Expenditures	Ratio
1979	$ 78,547	$1,382,875	5.68%
1980	78,552	1,598,410	4.91%
1981	81,360	1,764,940	4.61%
1982	89,722	1,859,378	4.83%
1983	105,091	1,936,338	5.43%
1984	101,436	2,110,791	4.81%
1985	103,608	2,397,054	4.32%
1986	106,738	2,592,269	4.12%

STATE OF SOUTH CAROLINA

Revenue Bond Coverage[1]

For the Last Eight Fiscal Years

(Expressed in Thousands)

Fiscal Year Ended June 30	Net Revenue[2] Available for Debt Service	Debt Service Requirements			Coverage
		Principal	Interest	Total	
1979	$ 45,269	$16,659	$ 5,083	$21,742	2.08
1980	85,578	5,158	6,103	11,261	7.60
1981	96,115	4,984	7,548	12,532	7.67
1982	108,602	13,009	11,408	24,417	4.45
1983	118,643	8,503	11,868	20,371	5.82
1984	190,107	13,497	44,848	58,345	3.26
1985	227,158	17,064	58,434	75,498	3.01
1986	227,459	27,969	79,179	107,148	2.12

[1] Prepared by the State Treasurer's Office.
[2] Gross revenue less direct operating expenses.

STATE OF SOUTH CAROLINA

Demographic Statistics

For the Last Ten Fiscal Years

Fiscal Year Ended June 30	Population[1]	Per Capita Income[2]	Median Age[3]	School Enrolled[4]	Unemployment Rate[5]
1976	2,941,000	$ 4,998	26.5	664,114	7.0
1977	2,989,000	5,437	27.0	663,080	7.2
1978	3,041,000	6,057	27.4	663,901	5.7
1979	3,087,000	6,719	27.8	654,833	5.0
1980	3,122,814	7,389	28.2	648,319	6.9
1981	3,186,500	8,158	28.7	642,015	8.4
1982	3,227,000	8,605	29.2	633,682	10.8
1983	3,264,000	9,168	29.6	626,050	10.0
1984	3,300,000	10,075	30.1	622,662	7.1
1985	3,347,000	10,586	29.8	668,985	6.8

[1] Source for Population 1976-1984 is the South Carolina Statistical Abstract, 1985 Edition.
Source for Population 1985 is the State Data Center.
[2] Source for Per Capita Income 1976-1984 is the U. S. Department of Commerce, Bureau of Economic Analysis, as revised April, 1985.
Source for Per Capita Income 1985 is the State Data Center.
[3] Source for Median Age 1976-1985 is the State Data Center.
[4] Source for School Enrollment 1976-1985 is the South Carolina Statistical Abstract, 1985 Edition.
Source for School Enrollment 1985 is the State Data Center.
[5] Source for the Unemployment Rate 1976-1985 is the South Carolina Employment Security Commission.

STATE OF SOUTH CAROLINA

Miscellaneous Statistics

For the Calendar Year Ended December 31, 1985

Date of Ratification	1788[1]
Form of Government	Legislative-Executive-Judicial
Miles of State Highways	40,393[2]
Land Area (Square Miles)	30,203[2]
State Police Protection:	
Police and Sheriffs Districts	250[3]
Total Number of Sworn Officers	6199[3]
Higher Education (Universities, Colleges and Technical Educational Centers):	
Number of Campuses in State	54[4]
Number of Students	132,231[4]
Recreation:	
Number of State Parks and Historical Sites	56[5]
Area of State Parks	79,258 acres[5]
Forest	123,488 acres[6]
Authorized State Employees Full Time Equivalent — Budgetary General Fund Only	37,460[7]

Source:
[1] 1986 Legislative Manual
[2] State Data Center
[3] State Law Enforcement Division
[4] Commission on Higher Education
[5] Department of Parks, Recreation and Tourism
[6] Forestry Commission
[7] Budget and Control Board, Budget Division

Standard & Poor's Corporation
25 Broadway, New York, New York 10004

Hyman C. Grossman
Managing Director
Municipal Finance Department
212/208-1752

December 23, 1986

Hon. Earle E. Morris, Comptroller General
State of South Carolina
P. O. Box 11228
Columbia, South Carolina 29211

Re: Generally Accepted Accounting Principles (GAAP) for States and Local Governments

Dear Comptroller General Morris:

Standard & Poor's has been encouraging the adoption of GAAP for governments since at least 1980. We have felt that with the Restatement of Accounting Principles by the National Council on Governmental Accounting in 1979 following the reporting nightmares of the 1970's, it would be good public policy to encourage the adoption of generally recognized standards.

We believe that adherence to GAAP lends credence to both internal and external reporting; provides more meaningful and comparable financial information to legislative and executive policy-makers and administrators as well as to external users such as the public and credit evaluators.

The Governmental Accounting Standards Board with a full-time staff succeeded the NCGA only two years ago and has already made substantial additional progress in this field.

We encourage South Carolina to move towards enhancing its public management sector, an ingredient in credit quality, by joining the growing list of states (close to 30) that have moved towards adopting GAAP.

Best wishes for the New Year.

Very truly yours,